

COVER SHEET

for
SEC FORM 20-IS

SEC Registration Number

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Company Name

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S	I	D	I	A	R	I	E	S																			

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

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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

--

Company's Telephone Number/s

831-1000

Mobile Number

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No. of Stockholders

2,407

Annual Meeting
Month/Day

--

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mr. John Nai Peng C. Ong

Email Address

--

Telephone Number/s

831-1000

Mobile Number

--

Contact Person's Address

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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.



Notice of Annual Stockholders' Meeting

April 23, 2019 | 2:30p.m.

Forbes Ballroom 1 & 2, Conrad Manila,
Seaside Boulevard cor. Coral Way, Mall of Asia Complex, Pasay City

To all Stockholders:

The annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on **April 23, 2019** at 2:30 p.m. at **Forbes Ballroom 1 & 2, Conrad Manila, Seaside Boulevard cor. Coral Way, Mall of Asia Complex, Pasay City**.

AGENDA

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Annual Meeting of Stockholders Held on April 24, 2018
4. Approval of Annual Report for 2018
5. General Ratification of the Acts of the Board of Directors, Board Committees and Management
6. Election of Members of the Board of Directors for 2019-2020
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

Attached are the rationale for the agenda items for reference.

The Board of Directors has fixed the end of trading hours of Philippine Stock Exchange on **March 20, 2019** as the record date for the determination of stockholders entitled to the notice of, to attend, and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you may accomplish a proxy form (which need not be notarized) and file the same with the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City at least seventy-two (72) hours before the date of the meeting, in accordance with the By-laws of the company. Validation of proxies will be conducted on April 21, 2019 at the office of the Corporate Secretary. For your convenience in registering your attendance, please bring proof of identity such as passport, driver's license, or a company ID.

Certified stockholders can also cast their votes through the Company's secure online voting facility for this meeting. The voting procedure for online voting is set forth in the Definitive Information Statement.

Pasig City, 20 February 2019.



ELMER B. SERRANO
Corporate Secretary

Rationale for Agenda Items:

Agenda Item No. 3: Approval of Minutes of the Annual Stockholders' Meeting Held on April 24, 2018

The draft minutes of the annual stockholders' meeting held on April 24, 2018 were posted on the Company's website within twenty-four (24) hours from adjournment of the meeting. These minutes are subject to stockholders' approval during this year's meeting.

Agenda Item No. 4: Approval of Annual Report for the Year 2018

The Company's 2018 performance has been duly summarized in the Annual Report, which also contains the Audited Financial Statements (AFS) of the Company for the year ended 31 December 2018. The AFS, as audited by the external auditor Sycip Gorres Velayo & Co. (SGV&Co.) which expressed an unqualified opinion therefor, have been reviewed and approved by the Audit Committee and the Board of Directors of the Company. Any stockholder who would like to receive a hard or soft copy of the 2018 Annual Report may do so through the Company's Investor Relations Office. The 2018 Annual Report is also posted on the Company's website.

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

The Company's performance in 2018, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by Management in conformance with good corporate governance and ethical best practices. The ratification of the acts undertaken by the Board of Directors, Board Committees, and Management is sought for this meeting.

Agenda Item No. 6: Election of Directors for 2019-2020

Incumbent Directors of the Company have been pre-qualified by the Company's Corporate Governance Committee for election as directors for 2019-2020. The nominees' proven competence, expertise and qualifications based on current regulatory standards, will help sustain the Company's solid performance for the benefit of all its stockholders. The profiles of the nominees are posted on the Company's website and are also here attached for your reference. Directors for 2019-2020 will be elected during this stockholders' meeting.

Agenda Item No. 7: Appointment of External Auditor

Upon recommendation of the Audit Committee, the Board approved and endorses the reappointment of SGV&Co. as the Company's external auditor for 2019. SGV&Co. is one of the top auditing firms in the country and is duly accredited with the Securities and Exchange Commission.

PROXY

The undersigned stockholder of **SM PRIME HOLDINGS, INC.** (the **Company**) hereby appoints _____ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 23, 2019 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting held on

April 24, 2018

____ Yes ____ No ____ Abstain

2. Approval of 2018 Annual Report

____ Yes ____ No ____ Abstain

3. Ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting

____ Yes ____ No ____ Abstain

4. Election of Directors

____ Vote for all nominees listed below

Henry T. Sy, Jr.

Hans T. Sy

Herbert T. Sy

Jeffrey C. Lim

Jorge T. Mendiola

Jose L. Cuisia, Jr. (Independent)

Gregorio U. Kilayko (Independent)

Joselito H. Sibayan (Independent)

____ Withhold authority for all nominees listed above

____ Withhold authority to vote for the nominees listed below:

5. Appointment of SyCip Gorres Velayo & Co. as external auditor

____ Yes ____ No ____ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.

____ Yes ____ No ____ Abstain

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

DATE

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

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

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

Profiles of the Nominees for Election to the Board of Directors for 2019 - 2020

NAME : HENRY T. SY, JR.
AGE : 65 YRS.
DESIGNATIONS : Non-Executive Director/Chairman of the Board



EDUCATION/ EXPERIENCE: Henry T. Sy, Jr. has been a director of SMPH since 1994. He was appointed as Chairman of the Board in 2014. 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 is currently the Vice Chairman of SM Investments Corporation (SMIC), Chairman and Chief Executive Officer of SM Development Corporation, Chairman of Pico de Loro Beach and Country Club Inc., and Vice Chairman of The National Grid Corporation of the Philippines. He holds a Bachelor's Degree in Management from De La Salle University.

POSITIONS IN OTHER PLCs :

SM Investments Corporation Vice Chairman

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings

DATE OF FIRST APPOINTMENT : April 1994

NO. OF YEARS ON THE BOARD : 25 Years

SHAREHOLDINGS : 2.38%

OTHER INFORMATION : No conflict of interest transactions in the past year.

NAME : JOSE L. CUISIA, JR.
AGE : 75 YRS.
DESIGNATIONS : Independent Director/Vice-Chairman of the Board /Lead Independent Director



EDUCATION/ EXPERIENCE: Mr. Jose L. Cuisia, Jr. has served as Vice Chairman and Independent Director of the Board of Directors of SM Prime since 1994. He was first appointed Lead Independent Director of the Company in February 2017 and has been reappointed as such the following year. He served as the Ambassador of the Republic of the Philippines to the United States of America from April 2, 2011 until June 2016. Mr. Cuisia was also the Vice Chairman of Philam Life after having served the company as its President and Chief Executive Officer for 16 years. He was also Chairman of the Board for BPI-Philam Life Assurance Co., the Philam Foundation and Tower Club, Inc. Mr. Cuisia was also the Governor of the Bangko Sentral ng Pilipinas (BSP) and Chairman of its Monetary Board from 1990-1993. He was also Governor for the Philippines to the International Monetary Fund and Alternate Governor to the World Bank. Prior to joining the BSP, he was Administrator and CEO of the Philippine Social Security System from 1986- 1990. Mr. Cuisia is also a Non-Executive Director of Bacnotan Consolidated Industries (now PHINMA Corporation); Independent Director of Century Properties Group & Manila Water Company, Inc. (all of which are publicly listed companies). Likewise, he is also Chairman of the Board of The Covenant Car Company, Inc., and holds directorates in PHINMA, Inc. In 2018, he was appointed Chairman of the Board of FWD Insurance and elected as Chairman of the Ramon Magsaysay Awards Foundation. Ambassador Cuisia was active in educational institutions, having been Chairman of the Board of Trustees of the Asian Institute of Management, a previous Trustee of the University of Asia & the Pacific and Chairman of De La Salle

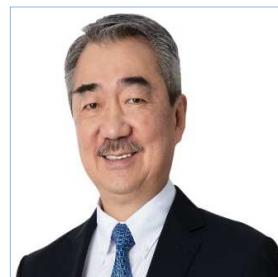
University Board of Trustees. He was the CV Starr Chairman of Corporate Governance for the Asian Institute of Management. He is also a Convenor-Trustee of the Philippine Business for Education (PBEd). Mr. Cuisia is an alumnus of De La Salle University, where he graduated in 1967 with degrees in Bachelor of Arts in Social Science and Bachelor of Science in Commerce (magna cum laude). He finished his Masters in Business Administration-Finance at The Wharton School, University of Pennsylvania in 1970 as a University Scholar. Mr. Cuisia is a recipient of numerous awards and accolades including 2017 Signum Meriti for exemplary public service from De La Salle University; 2006 Distinguished La Sallian Award; Ten Outstanding Filipino (TOFIL) awardee on December 2016 by the JCI Senate and ANZA Foundation; the Order of the Sikatuna with the rank of Grand Cross by President Benigno Aquino III in 2016; Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015; "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011; Management Association of the Philippines' Management Man of the Year for 2007; Manuel L. Quezon Award for Exemplary Governance in 2006; Raul Locsin CEO of the Year Award in 2004; and Ten Outstanding Young Men (TOYM) Award for Domestic Banking in 1982.

POSITIONS IN OTHER PLCs :

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

BOARD ATTENDANCE	:	100%; 6 of 6 Board Meetings 100%; 4 of 4 Audit Committee Meetings 100%; 3 of 3 Corporate Governance Committee Meetings 100%; 4 of 4 Board Risk Oversight Committee Meetings
DATE OF FIRST APPOINTMENT	:	April 1994
NO. OF YEARS ON THE BOARD	:	25 Years
SHAREHOLDINGS	:	0.00%
OTHER INFORMATION	:	No conflict of interest transactions in the past year.

NAME	:	HANS T. SY
AGE	:	63 YRS.
DESIGNATION	:	Non-Executive Director



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

POSITIONS IN OTHER PLCs :

China Banking Corporation	Chairman
SM Investments Corporation	Adviser to the Board

BOARD ATTENDANCE	:	100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT	:	April 1994
NO. OF YEARS ON THE BOARD	:	25 Years

SHAREHOLDINGS	:	2.35%
OTHER INFORMATION	:	No conflict of interest transactions in the past year.

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



EDUCATION/ EXPERIENCE : Mr. Herbert T. Sy has been a director of the Company since 1994. He is an Adviser to the Board of SMIC and is currently the Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation and Director of Alfamart Trading Philippines Inc. and China Banking Corporation. He also holds board positions in several companies within the SM Group. He has worked with SM Group Companies for more than 30 Years, engaged in food retailing. He is actively involved in the SM Group's Supermarket Operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor's degree in management from De La Salle University.

POSITIONS IN OTHER PLCs :

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

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings

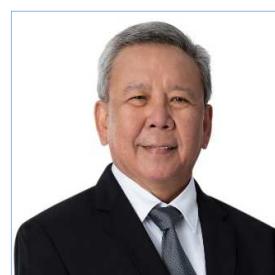
DATE OF FIRST APPOINTMENT : April 1994

NO. OF YEARS ON THE BOARD : 25 Years

SHAREHOLDINGS : 2.29%

OTHER INFORMATION : No conflict of interest transactions in the past year.

NAME : JORGE T. MENDIOLA
AGE : 60 YRS.
DESIGNATION : Non-Executive Director



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

POSITIONS IN OTHER PLCs : None

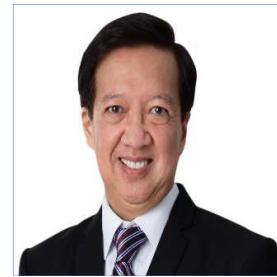
BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
 100%; 4 of 4 Audit Committee Meetings
 100%; 4 of 4 Board Risk Oversight Committee Meetings
 100%; 1 of 1 Related Party Transactions Committee Meetings

DATE OF FIRST APPOINTMENT : December 2012

NO. OF YEARS ON THE BOARD : 6 Years
SHAREHOLDINGS : 0.00%
OTHER INFORMATION : No conflict of interest transactions in the past year.

NAME : GREGORIO U. KILAYKO
AGE : 64 YRS.
DESIGNATION : Independent Director

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



POSITIONS IN OTHER PLCs :

Belle Corporation Independent Director

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
100%; 3 of 3 Corporate Governance Committee Meetings
100%; 4 of 4 Board Risk Oversight Committee Meetings
100%; 1 of 1 Related Party Transactions Committee Meetings

DATE OF FIRST APPOINTMENT : April 2008

NO. OF YEARS ON THE BOARD : 11 Years

SHAREHOLDINGS : 0.00%

OTHER INFORMATION : No conflict of interest transactions in the past year.

NAME : JOSELITO H. SIBAYAN
AGE : 60 YRS.
DESIGNATION : Independent Director



EDUCATION/ EXPERIENCE : Mr. Joselito H. Sibayan has been an Independent Director of the Company since 2011. He has spent the past 31 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration from University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status.

POSITIONS IN OTHER PLCs :

Apex Mining Corporation A Brown Company, Inc.	Independent Director Director
BOARD ATTENDANCE	100%; 6 of 6 Board Meetings 100%; 4 of 4 Audit Committee Meetings 100%; 3 of 3 Corporate Governance Committee Meetings 100%; 1 of 1 Related Party Transactions Committee Meetings
DATE OF FIRST APPOINTMENT	April 2011
NO. OF YEARS ON THE BOARD	8 Years
SHAREHOLDINGS	0.00%
OTHER INFORMATION	No conflict of interest transactions in the past year.

NAME : JEFFREY C. LIM
AGE : 57 YRS.
DESIGNATION : Executive Director



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

POSITIONS IN OTHER PLCs	: None
BOARD ATTENDANCE	: 100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT	: April 2016
NO. OF YEARS ON THE BOARD	: 3 Years
SHAREHOLDINGS	: 0.00%
OTHER INFORMATION	No conflict of interest transactions in the past year.

Note:

Directors of SM Prime are involved in certain legal proceedings solely in connection with their directorship in SM Prime. In 2017, the City Government of Cebu filed two complaints against directors and officers of the Company in their official capacities for alleged misrepresentations and non-disclosures of information in connection with the real property tax assessments for SM Seaside City Cebu. Both complaints were dismissed due to insufficiency of evidence. The Cebu City Government filed a Petition for Review, which is currently pending with the Department of Justice-Manila, and a Petition for Certiorari, which is pending with the Court of Appeals

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

- | | | |
|-----|--|---|
| 1. | Check the appropriate box: | |
| | <input type="checkbox"/> Preliminary Information Statement | |
| | <input checked="" type="checkbox"/> Definitive Information Statement | |
| 2. | Name of Registrant as specified in its charter | <u>SM PRIME HOLDINGS, INC.</u> |
| 3. | <u>PHILIPPINES</u>
Province, country or other jurisdiction of incorporation or organization | |
| 4. | SEC Identification Number <u>AS094-000088</u> | |
| 5. | BIR Tax Identification Code <u>003-058-789</u> | |
| 6. | <u>10th floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines 1300</u> | |
| | Address of principal office | Postal Code |
| 7. | Registrant's telephone number, including area code <u>(632) 831-1000</u> | |
| 8. | <u>April 23, 2019, 2:30 P.M., Forbes Ballroom 1 & 2, Conrad Manila, Seaside Boulevard corner Coral Way, Mall of Asia Complex, Pasay City 1300</u> | |
| | Date, time and place of the meeting of security holders | |
| 9. | Approximate date on which the Information Statement is first to be sent or given to security holders:
<u>March 20, 2019</u> | |
| 10. | Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants): | |
| | Title of Each Class | Number of Shares of Common Stock
Outstanding or Amount of Debt Outstanding |
| | <u>Common shares</u> | <u>28,879,231,694</u> |
| 11. | Are any or all of registrant's securities listed in a Stock Exchange? | |
| | Yes <input checked="" type="checkbox"/> No _____ | |
| | If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
<u>Philippine Stock Exchange</u> <u>Common shares</u> | |

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 23, 2019
Time : 2:30 p.m.

Place : Forbes Ballroom 1 & 2
Conrad Manila
Seaside Boulevard cor. Coral Way,
Mall of Asia Complex
Pasay City

Mailing Address : **SM Prime Holdings, Inc.**
of Registrant 10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

(b) Approximate date on which the Information Statement will be sent or given to the stockholders is on **March 20, 2019**.

Statement that proxies are not solicited

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 20, 2019 (**Record Date**). The total number of shares outstanding and entitled to vote in the stockholders' meeting is 28,879,231,694 shares (net of 4,287,068,381 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

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

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

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

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

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

- (a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.
 - (b) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares.
- The failure of the stockholder to make the demand within the 30-day period shall be deemed a waiver on his appraisal right.
- (c) If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value of the shareholder's shares in the Company as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger, if such be the corporate action involved. Failure by the dissenting shareholder to surrender his shares within said 10-day period shall, at the option of SMPH, terminate his appraisal rights.
 - (d) If within sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and SMPH cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by SMPH, and the third by the two (2) thus chosen.
 - (e) The findings of a majority of the appraisers shall be final, and their award shall be paid by SMPH within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless SMPH has unrestricted retained earnings in its books to cover such payment.
 - (f) Upon payment of the agreed or awarded price, the stockholder shall transfer his shares to the Company.

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

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

- (a) No director or Executive Officer of SMPH since the beginning of the last fiscal year, or any nominee for election as director, nor any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the meeting, other than election to office.
- (b) No director of SMPH has informed SMPH in writing that he intends to oppose any matter to be acted upon at this year's Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(1) Number of Common Shares Outstanding

The Company has 28,879,231,694 (net of 4,287,068,381 treasury shares) common shares outstanding as of February 28, 2019. Out of the aforesaid outstanding common shares, 6,896,143,979 common shares are held by foreigners.

(2) Record Date

All stockholders of record as of March 20, 2019 are entitled to notice of, and to vote at, the Annual Stockholders' Meeting.

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

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

Stockholders may nominate directors and vote for nominees in person or by proxy. SMPH provides an online voting facility where certificated stockholders can cast their votes if not attending in person.

Voting procedures are further detailed in Item 19.

(4) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2019

The following are the stockholders owning of more than 5% of total outstanding common shares of stock of the Company as of February 28, 2019:

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	SM Investments Corporation (SMIC) (Parent Company)¹ One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	SMIC²	Filipino	14,353,464,952 (b)	49.70
-do-	PCD Nominee Corp.³ (PCNC)³ 37F Tower 1, The Enterprise Center, Ayala Ave., Makati City	PCD Participants⁴	Filipino – 4.07% Non-Filipino – 19.92%	6,926,244,616 (r)	23.98

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

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

³. PCNC holds legal title to shares lodged in the Philippine Depository & Trust Corp. Beneficial owners retain the power to decide on how their lodged shares are to be voted. There are no beneficial owners under PCNC which own more than 5% shares of stock of the Company.

⁴ PCNC is not related to the Company.

(5) Security Ownership of Management as of February 28, 2019

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Beneficial Ownership (D) Direct (I) Indirect	Class of Securities Voting (V)	Percent of Class
Common	Henry Sy, Sr.	F	82,795,579 (I)	V	0.29
-do-	Jose L. Cuisia, Jr.	F	497,661 (D&I)	V	0.00
-do-	Teresita T. Sy	F	661,356,934 (D&I)	V	2.29
-do-	Henry T. Sy, Jr.	F	687,953,713 (D)	V	2.38
-do-	Hans T. Sy	F	679,811,914 (D&I)	V	2.35
-do-	Herbert T. Sy	F	661,037,924 (D&I)	V	2.29
-do-	Elizabeth T. Sy	F	661,251,450 (D&I)	V	2.29
-do-	Gregorio U. Kilayko	F	202,580 (D&I)	V	0.00
-do-	Joselito H. Sibayan	F	1,375 (I)	V	0.00
-do-	Jorge T. Mendiola	F	703,167 (D&I)	V	0.00
-do-	Jeffrey C. Lim	F	50,000 (I)	V	0.00
-do-	Christopher S. Bautista	F	37,500 (I)	V	0.00
-do-	Steven T. Tan	F	84,800 (I)	V	0.00
-do-	Teresa Cecilia H. Reyes	F	100,000 (I)	V	0.00
-do-	All directors and executive officers as a group		3,435,884,597		11.90

There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of February 28, 2019.

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

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

ITEM 5. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman Emeritus	Henry Sy, Sr.*	Filipino	94
Chairman	Henry T. Sy, Jr.	Filipino	65
Vice Chairman and Lead Independent Director	Jose L. Cuisia, Jr.	Filipino	75
Independent Director	Gregorio U. Kilayko	Filipino	64
Independent Director	Joselito H. Sibayan	Filipino	60
Director and President	Jeffrey C. Lim	Filipino	57
Director	Hans T. Sy	Filipino	63
Director	Herbert T. Sy	Filipino	62
Director	Jorge T. Mendiola	Filipino	60
Adviser to the Board of Directors	Teresita T. Sy	Filipino	68
Adviser to the Board of Directors	Elizabeth T. Sy	Filipino	67
Corporate Secretary/Alternate Compliance Officer	Elmer B. Serrano	Filipino	51
Assistant Corporate Secretary and Alternate Corporate Information Officer	Arthur A. Sy	Filipino	49
Chief Finance Officer/Compliance Officer/Corporate Information Officer	John Nai Peng C. Ong	Filipino	48
Vice President – Internal Audit	Christopher S. Bautista	Filipino	59
Vice President-Finance/Alternate Compliance Officer/Alternate Corporate Information Officer	Teresa Cecilia H. Reyes	Filipino	44
Chief Risk Officer	Marvin Perrin L. Pe	Filipino	40
President, Malls	Anna Maria S. Garcia	Filipino	63
EVP and Chief Operating Officer, Malls	Steven T. Tan	Filipino	49
EVP, Residential (Primary)	Jose Mari H. Banzon	Filipino	58
EVP, Residential (Leisure)	Shirley C. Ong	Filipino	57
VP, Commercial	Russel T. Sy	Filipino	46
EVP, Hotels and Convention Centers	Ma. Luisa E. Angeles	Filipino	60

*Passed away on January 19, 2019

Board of Directors

Henry Sy, Sr. has been the Chairman Emeritus of the Board of Directors of SMPH until his passing on January 19, 2019. He served as Chairman of the Board of Directors of SMPH for ten (10) years from 1994 to April 2014. He was the founder of the SM Group and is currently, Chairman Emeritus of SMIC, SM Development Corporation (**SMDC**), Highlands Prime, Inc. (**HPI**) and BDO Unibank, Inc. (**BDO**) and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of SM Group's diversification into five lines of businesses – shopping malls, retail, financial services, real estate development and tourism oriented entities such as but not limited to hotels and convention centers. Mr. Sy earned his Associate of Arts Degree in Commerce Studies at Far Eastern University and was conferred an Honorary Doctorate in Business Management by De La Salle University.

Henry T. Sy, Jr. has been a director of SMPH since 1994. He was appointed as Chairman of the Board in 2014. 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 is currently the Vice Chairman of SMIC, Chairman and Chief Executive Officer of SMDC, Chairman of Pico de Loro Beach and Country Club Inc., and Vice Chairman of The National Grid Corporation of the Philippines. He holds a Bachelor's Degree in Management from De La Salle University.

Jose L. Cuisia, Jr.* has served as Vice Chairman and Independent Director of the Board of Directors of SM Prime since 1994. He was first appointed Lead Independent Director of the Company in February 2017 and has been reappointed as such the following year. He served as the Ambassador of the Republic of the Philippines to the United States of America from April 2, 2011 until June 2016. Mr. Cuisia was also the Vice Chairman of Philam Life after having served the company as its President and Chief Executive Officer for 16 years. He was also Chairman of the Board for BPI-Philam Life Assurance Co., the Philam Foundation and Tower Club, Inc. Mr. Cuisia was also the Governor of the Bangko Sentral ng Pilipinas (BSP) and Chairman of its Monetary Board from 1990-1993. He was also Governor for the Philippines to the International Monetary Fund and Alternate Governor to the World Bank. Prior to joining the BSP, he was Administrator and CEO of the Philippine Social Security System from 1986-1990. Mr. Cuisia is also a Non-Executive Director of Bacnotan Consolidated Industries (now PHINMA Corporation); Independent Director of Century Properties Group & Manila Water Company, Inc. (all of which are publicly listed companies). Likewise, he is also Chairman of the Board of The Covenant Car Company, Inc., and holds directorates in PHINMA, Inc. In 2018, he was appointed Chairman of the Board of FWD Insurance and elected as Chairman of the Ramon Magsaysay Awards Foundation. Ambassador Cuisia was active in educational institutions, having been Chairman of the Board of Trustees of the Asian Institute of Management, a previous Trustee of the University of Asia & the Pacific and Chairman of De La Salle University Board of Trustees. He was the CV Starr Chairman of Corporate Governance for the Asian Institute of Management. He is also a Convenor-Trustee of the Philippine Business for Education (PBEd). Mr. Cuisia is an alumnus of De La Salle University, where he graduated in 1967 with degrees in Bachelor of Arts in Social Science and Bachelor of Science in Commerce (magna cum laude). He finished his Masters in Business Administration-Finance at The Wharton School, University of Pennsylvania in 1970 as a University Scholar. Mr. Cuisia is a recipient of numerous awards and accolades including 2017 Signum Meriti for exemplary public service from De La Salle University; 2006 Distinguished La Sallian Award; Ten Outstanding Filipino (TOFIL) awardee on December 2016 by the JCI Senate and ANZA Foundation; the Order of the Sikatuna with the rank of Grand Cross by President Benigno Aquino III in 2016; Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015; "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011; Management Association of the Philippines' Management Man of the Year for 2007; Manuel L. Quezon Award for Exemplary Governance in 2006; Raul Locsin CEO of the Year Award in 2004; and Ten Outstanding Young Men (TOYM) Award for Domestic Banking in 1982.

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

Joselito H. Sibayan* has been an Independent Director of the Company since 2011. He has spent the past 31 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration from University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the

President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status.

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

Jeffrey C. Lim was appointed President of SM Prime in October 2016 and has been reappointed as such since then. He is a member of the Company's Executive Committee. He also serves as President of SM Development Corporation. He was elected to the Board of Directors of SM Prime in April 2016. He holds various board and executive positions in other SMPH's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company in 1994, he worked for a multi-national company and for SGV & Co.

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

Herbert T. Sy has been a director of the Company since 1994. He is an Adviser to the Board of SMIC and is currently the Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation and Director of Alfamart Trading Philippines Inc. and China Banking Corporation. He also holds board positions in several companies within the SM Group. He has worked with SM Group Companies for more than 30 Years, engaged in food retailing. He is actively involved in the SM Group's Supermarket Operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor's degree in management from De La Salle University.

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

Teresita T. Sy has served as an Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she is currently Chairperson of BDO Unibank, Inc. and Vice Chairperson of SMIC. She also holds board positions in several companies within the SM Group. She is the Philippine representative to the ASEAN Business Advisory Council.

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

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

Elmer B. Serrano is the Corporate Secretary of the SMPH and of SMIC since November 2014. He is a practicing lawyer recognized by TheLegalASia500 Asia Pacific and IFLR1000 in the areas of Corporate and Mergers & Acquisitions, Capital Markets and Banking & Finance. Mr. Serrano is a director of 2GO Group, Inc. and DFNN Inc., both publicly-listed companies. He is also the Corporate Secretary of Premium Leisure Corp., Crown Equities, Inc., as well as various subsidiaries of BDO. He is also Corporate Secretary of, and counsel to, prominent banking industry associations and companies such as the Bankers Association of the Philippines and PDS Group. Mr. Serrano is a Certified Associate Treasury Professional (2017) and was among the top graduates of the Trust Institute of the Philippines in 2001. Mr. Serrano holds a Juris Doctor degree from the Ateneo Law School and a BS Legal Management degree from Ateneo de Manila University.

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

Executive Officers

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

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

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

Marvin Perrin L. Pe is the Chief Risk Officer and Vice President for Enterprise Risk Management. He holds a Bachelor of Science degree in Accountancy from Centro Escolar University. He has completed his Masters in Management Degree, with distinction, from the Asian Institute of Management. Before joining SM Prime Holdings, Inc., Mr. Pe was an Advisory Partner of SyCip Gorres Velayo & Co. (SGV).

Anna Maria S. Garcia is the Business Unit Head for Malls as President of Shopping Center Management Corp. (SCMC) since 2006. She is the Chairman of Mercantile Stores Group Inc., Chief Executive Officer of Henfels Investments Inc., Board of Director of the Gifts and Graces Fair Trade Foundation Inc. and Pico De Loro Beach and Country Club, Inc. and a member of International Council of Shopping Centers and Philippine Retailers Association of the Philippines. She graduated from

University of the Philippines with a degree of BS Foreign Service. Prior to joining SCMC in 1998, she worked as Assistant Vice-President for Department Store Operations, SM Inc.

Steven T. Tan is the Chief Operating Officer of SM Supermalls and handles mall properties in the Philippines and China. He took up Business Management at University of Santo Tomas and completed his Masters in Business Administration from Paris School of Management. Prior to joining the Company, Mr. Tan began his career in Howard Plaza Hotel at Taipei, Taiwan from 1990-1998 and moved to Shanghai, China to form part of the opening team of the Barcelo Grand Hotel. He returned to the Philippines in 2001 to work as Regional Director of Marketing and Communications for FilBarcelo, handling external affairs for the group. In 2004, he joined SM handling mall operations for The Podium and in January 2006, led the launch and operations of SM Mall of Asia.

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

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

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

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

The Directors of the Company are elected at the Annual Stockholders' Meeting. Directors will hold office for a term of one (1) year or until the next succeeding annual meeting and until their respective successors have been elected and qualified. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC and its Implementing Rules and Regulations.

Procedure for Nomination of Directors:

- Any stockholder of record, including a minority stockholder, as of Record Date may be nominated for election to the Board of Directors of SMPH.
- The Corporate Governance Committee passes upon, and deliberates on, the qualifications of all persons nominated to be elected to the Board of Directors of SMPH, and pre-screens nominees from the pool of candidates submitted by the nominating stockholders in accordance with the Company's By-Laws and Manual of Corporate Governance. The Corporate Governance Committee shall prepare a Final List of Candidates containing information of the listed nominees, from the candidates who have passed the Guidelines, Screening Policies and Parameters for the nomination of directors. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be

eligible for election as director of the Company. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

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

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

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

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

All SMPH directors are expected to exercise due discretion in accepting and holding directorships outside of the Company. The directors notify the Board prior to accepting directorship in another company. The following are directorships held by SMPH Directors and Executive Officers in other reporting companies at least, in the last five years:

Henry Sy, Sr.

Name of Corporation

SM Investments Corporation
China Banking Corporation
BDO Unibank, Inc...

Position

Chairman Emeritus
Honorary Chairman
Chairman Emeritus

Henry T. Sy, Jr.

Name of Corporation

SM Investments Corporation

Position

Vice Chairman

Jose L. Cuisia, Jr.

Name of Corporation

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

Position

Non-Executive Director
Independent Director
Independent Director

Gregorio U. Kilayko		Position
Name of Corporation		
Belle Corporation.....		Independent Director
Joselito H. Sibayan		Position
Name of Corporation		
Apex Mining Corporation		Independent Director
A Brown Company, Inc		Director
Hans T. Sy		Position
Name of Corporation		
China Banking Corporation		Chairman
SM Investments Corporation.		Adviser to the Board
Herbert T. Sy		Position
Name of Corporation		
China Banking Corporation		Director
SM Investments Corporation		Adviser to the Board
Teresita T. Sy		Position
Name of Corporation		
BDO Unibank, Inc.		Chairperson
SM Investments Corporation.		Vice Chairperson
Elizabeth T. Sy		Position
Name of Corporation		
SM Investments Corporation....		Adviser to the Board
Elmer B. Serrano		Position
Name of Corporation		
2Go Group, Inc.....		Director
DFNN, Inc.....		Director

Board Committees

The members of the Audit Committee are:

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

The members of the Corporate Governance Committee are:

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

The members of the Risk Oversight Committee are:

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

The members of the Related Party Transactions Committee are:

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

The members of the Executive Committee are:

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

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

The Corporate Governance Committee, confirmed by the Board, qualified the following nominees for election as members of Board of Directors for 2019-2020 at the forthcoming Annual Stockholders' Meeting:

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

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

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

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

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

The following will be nominated as officers of the Company for 2019-2020 at the organizational meeting of the Board of Directors:

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

Family Relationships

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

Involvement in Legal Proceedings

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

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

ITEM 6. Compensation of Directors and Executive Officers

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

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

Summary Compensation Table

	Year	Salary	Bonus
President & 4 Most Highly Compensated Executive Officers	2019 (estimate) 2018 (actual) 2017 (actual)	₱136,000,000 124,000,000 112,000,000	₱23,000,000 21,000,000 19,000,000
All other officers* as a group unnamed	2019 (estimate) 2018 (actual) 2017 (actual)	₱381,000,000 346,000,000 314,000,000	₱64,000,000 58,000,000 52,000,000

*Managers & up

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

Certain Relationships and Related Transactions

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks. Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

Please refer to Note 21 of the attached 2018 consolidated financial statements of the Company.

ITEM 7. Independent Public Accountants

SGV & Co. is the external auditor for the current year, and is being recommended by the Audit Committee and the Board of Directors for re-appointment as the Company's external auditor for 2019. This will also be presented for confirmation of stockholders at the scheduled Annual Stockholders' Meeting. Representatives of SGV & Co. are expected to be present at the stockholders' meeting, where they are given the opportunity to make a statement should they desire to do so, and to respond to questions from stockholders.

Pursuant to the Charter of the Audit Committee, the Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. Also part of the Committee's duties and responsibilities is to ensure the quality and integrity of the Company's accounting, financial reporting, auditing practices, risk management and internal control systems and adherence to over-all corporate governance best practice. The Committee also oversees the Company's process for monitoring compliance with laws, regulations, the Code of Ethics, and performs other duties as the Board may require. Prior to commencement of audit, the Committee is mandated to discuss with the external auditor the nature, scope and approach, of the audit including coordination of audit effort with internal audit. The Company's Manual on Corporate Governance also provides that the Committee shall pre-approve all audit plans, scope and frequency one month before the conduct of external audit.

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

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

The Company and its subsidiaries paid SGV & Co. about ₱9.0 million for external audit services for the years 2018 and 2017. In 2018, SGV & Co. did the review of the Interim Condensed Consolidated Financial Statements as at September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016. In 2017, SGV & Co. did cut off procedures for the issuance of Comfort Letter related to the proposed issuance of the fixed rate Series G Bonds due 2024, which is the second tranche issuance under the ₱60 billion fixed rate bonds shelf registration by the Company. There were no other significant professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from entities other than the external auditor.

ITEM 8. Employee Compensation Plans

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

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

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

ITEM 10. Modification or Exchange of Securities

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

ITEM 11. Financial and Other Information

The Company's consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 are here attached as Annex B for immediate reference.

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

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

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

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

The subsidiaries of the Company are as follows:

Company	Country of Incorporation	Percentage of Ownership	
		2018	2017
Malls			
First Asia Realty Development Corporation	Philippines	74.2	74.2
Premier Central, Inc.	- do -	100.0	100.0
Consolidated Prime Dev. Corp.	- do -	100.0	100.0
Premier Southern Corp. (PSC)	- do -	100.0	100.0
San Lazaro Holdings Corporation	- do -	100.0	100.0
Southernpoint Properties Corp.	- do -	100.0	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.0	50.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	100.0	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	100.0	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	100.0	100.0
Springfield Global Enterprises Limited	- do -	100.0	100.0
Simply Prestige Limited and Subsidiaries	- do -	100.0	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	100.0	100.0
Rushmore Holdings, Inc.	Philippines	100.0	100.0
Prime Commercial Property Management Corporation and Subsidiaries (PCPMC)	- do -	100.0	100.0
Magenta Legacy, Inc.	- do -	100.0	100.0
Associated Development Corporation	- do -	100.0	100.0
Prime Metroestate, Inc. and Subsidiary	- do -	60.0	60.0
SM Arena Complex Corporation	- do -	100.0	100.0
Mindpro Incorporated (Mindpro)	- do -	70.0	70.0
A. Canicosa Holdings, Inc.	- do -	100.0	100.0
AD Canicosa Properties, Inc.	- do -	100.0	100.0
Cherry Realty Development Corporation*	- do -	91.3	65.0
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	100.0	100.0
Highlands Prime Inc. (HPI)	- do -	100.0	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)	- do -	100.0	100.0
Commercial			
Tagaytay Resort Development Corporation	- do -	100.0	100.0
MOA Esplanade Port, Inc.	- do -	100.0	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	100.0	100.0

*Acquired in 2017 which was accounted for as acquisition of assets - single-asset entity (see Note 14)

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. As of December 31, 2018, the mall business unit has seventy-two shopping malls in the Philippines with 8.3 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area.

In 2018, SM Prime's mall business unit opened five malls in the Philippines namely, SM Center Imus in Cavite, SM City Urdaneta Central in Pangasinan, SM City Telabastagan in Pampanga, SM City Legazpi in Albay and SM Center Ormoc in Leyte. For 2019, SM Prime is slated to open four new malls in the Philippines. By the end of 2019, the malls business unit will have seventy-six malls in the Philippines and seven malls in China with an estimated combined gross floor area of almost 10.0 million square meters.

Residential

SM Prime's revenue from residential operations is derived largely from the sale of condominium units. As of December 31, 2018, residential business unit has forty-four residential projects in the market, thirty-five of which are in Metro Manila and nine are outside Metro Manila. For 2019, SM Prime is scheduled to launch 15,000 to 18,000 residential units that includes high-rise, mid-rise and single detached housing. These projects will be located in Metro Manila and other key cities in the provinces.

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

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

Commercial

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

As of December 31, 2018, SM Prime has eleven office buildings with a combined gross floor area of 623,000 square meters. Three E-Com Center, with gross floor area of almost 130,000 square meters, was recently launched in September 2018. SM Prime is set to launch the campus-office building named NU Tower, and the FourE-Com Center, both in the Mall of Asia Complex, Pasay City in 2019 and 2020, respectively.

Hotels and Convention Centers

SM Prime's hotels and convention centers business unit develops and manages the various hotel and convention center properties of the Company. As of December 31, 2018, the hotels and convention centers business unit is composed of six hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City and Pasay City with over 1,500 saleable rooms; four convention centers located in MOA Complex, SM Lanang Premier, SM Aura Premier and SM City Bacolod, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu. The Company is set to launch two new hotels this 2019 namely Park Inn by Radisson – Iloilo and Park Inn by Radisson – North EDSA.

Management's Discussion and Analysis or Plan of Operation

2018

SM Prime's Net Income up 17% in 2018 to P32.2 billion

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

	Twelve months ended Dec 31				
	2018	% to Revenues	2017	% to Revenues	% Change
Profit & Loss Data					
Revenues	104,081	100%	90,922	100%	14%
Costs and expenses	55,753	54%	50,293	55%	11%
Operating Income	48,327	46%	40,629	45%	19%
Net Income	32,173	31%	27,574	30%	17%
EBITDA	57,244	55%	49,037	54%	17%
Balance Sheet Data					
Total Assets	604,134	100%	538,418	100%	12%
Investment Properties	293,575	49%	273,084	51%	8%
Total Debt	222,811	37%	193,598	36%	15%
Net Debt	184,045	30%	148,495	28%	24%
Total Equity	275,303	46%	258,957	48%	6%
Dec 31					
Financial Ratios					
	2018	2017			
Debt to Equity	0.45 : 0.55	0.43 : 0.57			
Net Debt to Equity	0.40 : 0.60	0.36 : 0.64			
Return on Equity	0.12	0.11			
Debt to EBITDA	3.89	3.95			
Interest Coverage Ratio	7.59	8.96			
Operating Income to Revenues	0.46	0.45			
EBITDA Margin	0.55	0.54			
Net Income to Revenues	0.31	0.30			

Revenue

SM Prime recorded consolidated revenues of ₱104.08 billion in the year ended 2018, an increase of 14% from ₱90.92 billion in the year ended 2017, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱57.16 billion in 2018, an increase of 11% from ₱51.41 billion in 2017. The increase in rental revenue was primarily due to the new malls and expansions opened in 2017 and 2018 namely, SM CDO Downtown Premier, S Maison, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM City Urdaneta Central, SM City Telabastagan, SM City Legazpi and SM Center Ormoc with a total gross floor area of 0.53 million square meters. Out of the total rental revenues, 88% is contributed by the malls and the rest from office and hotels and convention centers. Excluding the new malls, same-store rental growth is at 8%. Rent from commercial operations also increased due to the opening of Three E-Com Center and SM Southmall South Tower in 2018.

Real Estate Sales

SM Prime recorded a 22% increase in real estate sales in 2018 from ₱29.43 billion to ₱35.87 billion primarily due to higher construction accomplishments of projects launched in 2015 to 2017 namely Shore 2, Fame, Coast, Spring, Shore 3 and S Residences and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Filipinos' remittances, and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized in the books based on percentage of completion.

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales increased by 9% to ₱5.22 billion in 2018 from ₱4.77 billion in 2017 due to higher gross box office receipts from international and local blockbuster movies shown in 2018 compared to 2017. The major blockbusters screened in 2018, accounting for 29% of gross ticket sales, include "Avengers: Infinity War", "The Hows of Us", "Jurassic World: Fallen Kingdom", "Black Panther", and "Aquaman". The major blockbusters screened in 2017 were "Beauty and the Beast", "Justice League", "Wonder Woman", "Thor: Ragnarok" and "The Revenger Squad" accounting for 23% of gross ticket sales.

Other Revenues

Other revenues increased by 10% to ₱5.83 billion in 2018 from ₱5.31 billion in 2017. The increase was mainly due to higher income from bowling and ice skating operations, sponsorships, opening of new amusement attractions particularly SM Skyranch Baguio and increase in net merchandise sales from snackbars. This account also includes amusement income from rides, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱55.75 billion for the year ended 2018, an increase of 11% from ₱50.29 billion in 2017, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 17% to ₱17.77 billion in 2018 from ₱15.15 billion in 2017 primarily due to costs related to higher recognized real estate sales, offset by result of improving cost efficiencies as a result of economies of scale, tighter monitoring and control of construction costs hence, leading to improved gross profit margin on real estate sales from 49% in 2017 to 50% in 2018.

Operating Expenses

SM Prime's consolidated operating expenses increased by 8% to ₱37.98 billion in 2018 compared to last year's ₱35.14 billion due to new mall openings. Out of the total operating expenses, 71% is contributed by the malls where same-store mall growth in operating expenses is at 4%. Operating expenses include depreciation and amortization, film rentals, taxes and licenses, marketing and selling expenses, utilities and manpower, including agency costs.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 38% to ₱7.54 billion in 2018 compared to ₱5.47 billion in 2017 due to the series of retail bonds issued in March 2018 and May 2017 amounting to ₱20 billion each and new bank loans availed for working capital and capital expenditure requirements, net of the capitalized interest on proceeds spent for construction and development of investment properties.

Interest and Dividend Income

Interest and dividend income increased by 51% to ₱1.83 billion in 2018 from ₱1.21 billion in 2017. This account is mainly composed of interest and dividend income received from cash and cash equivalents, investments held for trading and AFS investments. The increase is due to higher average balance of cash and cash equivalents and higher dividends received in 2018 on available-for-sale investments.

Other income (charges) - net

Other charges – net increased by 54% to ₱0.65 billion in 2018 from ₱0.42 billion in 2017 due to foreign exchange and other incidental costs related to mall projects.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 16% to ₱9.06 billion in 2018 from ₱7.82 billion in 2017.

Net income attributable to Equity holders of the Parent

SM Prime's consolidated net income attributable to Equity holders of the Parent in the year ended December 31, 2018 increased by 17% to ₱32.17 billion as compared to ₱27.57 billion in 2017.

Balance Sheet Accounts

SM Prime's total assets amounted to ₱604.13 billion as of December 31, 2018, an increase of 12% from ₱538.42 billion as of December 31, 2017.

Cash and cash equivalents decreased by 13% from ₱44.37 billion to ₱38.77 billion as of December 31, 2017 and December 31, 2018, respectively, mainly due to payments for capital expenditure projects during the period, net of increase in the Company's cash flows from operations and proceeds from long-term debt.

Financial assets at fair value through other comprehensive income were sold during the period.

Receivables and contract assets increased by 4% from ₱33.99 billion to ₱35.23 billion as of December 31, 2017 and December 31, 2018, respectively, due to increase in rental receivables from new malls and expansions and increase in sales of residential projects.

Condominium and residential units for sale decreased by 7% from ₱8.73 billion to ₱8.09 billion as of December 31, 2017 and December 31, 2018, respectively, due to faster sales take up of RFO units, particularly those projects located in the bay area.

Land and development increased by 35% from ₱58.67 billion to ₱79.33 billion as of December 31, 2017 and December 31, 2018, respectively, due to landbanking and construction accomplishments for the period, net of cost of sold units and transfers of RFO units to condominium and residential units for sale.

Investments in associates and joint ventures increased by 7% from ₱24.57 billion to ₱26.20 billion as of December 31, 2017 and 2018, respectively, due to increase in equity in net earnings of associates and joint ventures.

Equity instruments at fair value through other comprehensive income decreased by 24% from ₱31.11 billion to ₱23.53 billion as of December 31, 2017 and December 31, 2018, respectively, due to disposals and changes in fair values under this portfolio.

Investment properties increased by 8% from ₱273.08 billion to ₱293.57 billion as of December 31, 2017 and December 31, 2018, respectively, primarily due to ongoing new mall projects, ongoing commercial building construction, including the Four E-Com Center and the ongoing redevelopment of SM Mall of Asia and other existing malls. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects.

Derivative assets decreased by 76% from ₱3.55 billion to ₱0.85 billion as of December 31, 2017 and December 31, 2018, respectively, mainly resulting from the maturity of the \$350 million cross currency swap transaction. While the 57% decrease in derivative liabilities from ₱0.78 billion to ₱0.34 billion as of December 31, 2017 and December 31, 2018, respectively, mainly resulted from the net fair value changes on the principal only swap transaction and cross currency swap transaction entered into in 2016 to 2017.

Other noncurrent assets, which includes the noncurrent portion of receivables from sale of real estate, increased by 91% from ₱42.42 billion to ₱80.91 billion as of December 31, 2017 and December 31, 2018, due to additional bonds and deposits for real estate acquisitions and construction accomplishments of sold units as well as new sales for the period.

Loans payable decreased by 95% from ₱0.74 billion to ₱0.04 billion as of December 31, 2017 and December 31, 2018, respectively, due to payment of maturing loans.

Accounts payable and other current liabilities increased by 21% from ₦51.08 billion to ₦61.77 billion as of December 31, 2017 and December 31, 2018, respectively, mainly due to payables to contractors and suppliers related to ongoing projects, customers' deposits from residential buyers and liability for purchased land.

Long-term debt increased by 16% from ₦192.85 billion to ₦222.77 billion as of December 31, 2017 and December 31, 2018, respectively, mainly due to the issuance of ₦20.00 billion retail bonds in March 2018 and new loan availments to fund capital expenditures requirements, net of payment of maturing loans.

Tenants' and customers' deposits increased by 14% from ₦16.38 billion to ₦18.68 billion as of December 31, 2017 and December 31, 2018, respectively, mainly due to the new malls and office buildings and increase in customers' deposits from residential buyers.

Liability for purchased land increased to ₦6.04 billion from ₦2.17 billion as of December 31, 2018 and December 31, 2017, respectively, due to landbanking.

Deferred tax liabilities increased by 23% from ₦2.88 billion to ₦3.53 billion as of December 31, 2017 and December 31, 2018, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Other noncurrent liabilities increased by 38% from ₦7.62 billion to ₦10.51 billion as of December 31, 2017 and December 31, 2018, respectively, due to increase in retention payable and output VAT on residential sales.

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

Interest-bearing debt to equity increased to 0.45:0.55 as of December 31, 2018 from 0.43:0.57 as of December 31, 2017 due to additional borrowings. Likewise, net interest-bearing debt to equity increased to 0.40:0.60 as of December 31, 2018 from 0.36:0.64 as of December 31, 2017 due to additional borrowings, net of payments, for capital expenditure and working capital requirements.

ROE increased to 12% as of December 31, 2018 from 11% as of December 31, 2017.

Debt to EBITDA improved to 3.89:1 as of December 31, 2018 from 3.95:1 as of December 31, 2017 due to increase in consolidated operating income. Interest coverage ratio decreased to 7.59:1 as of December 31, 2018 from 8.96:1 as of December 31, 2017 as a result of increase in interest expense from additional borrowings. EBITDA margin improved to 55% as of December 31, 2018 from 54% as of December 31, 2017.

Consolidated operating income to revenues improved to 46% as of December 31, 2018 from 45% as of December 31, 2017. Consolidated net income to revenues likewise improved to 31% as of December 31, 2018 from 30% as of December 31, 2017.

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

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

As at December 31, 2018 and 2017, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to P42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2019, the Company expects to incur capital expenditures of approximately ₱80 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has seventy-two shopping malls in the Philippines with 8.3 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area. For 2019, SM Prime is slated to open four new malls in the Philippines. By the end of 2019, the malls business unit will have seventy-six malls in the Philippines and seven malls in China with an estimated combined gross floor area of almost 10.0 million square meters.

SM Prime currently has forty-four residential projects in the market, thirty-five of which are in Metro Manila and nine are outside Metro Manila. For 2019, SM Prime is scheduled to launch between 15,000 to 18,000 residential units that includes high-rise buildings, mid-rise buildings and single detached house and lot projects. These projects will be located in Metro Manila and other key cities in the provinces.

SM Prime's Commercial Properties Group has eleven office buildings with a combined gross floor area of 623,000 square meters. Three E-Com Center, with gross floor area of almost 130,000 square meters, was recently launched in September 2018. SM Prime is set to launch the campus-office building named NU Tower, and the FourE-Com Center, both in the Mall of Asia Complex, Pasay City in 2019 and 2020, respectively.

SM Prime's hotels and convention centers business unit currently has a portfolio of six hotels with over 1,500 rooms, four convention centers and three trade halls. The Company is set to launch two new hotels this 2019 namely Park Inn by Radisson – Iloilo and Park Inn by Radisson – North EDSA.

2017

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

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

	Twelve months ended Dec 31				
	2017	% to Revenues	2016	% to Revenues	% Change
		2017	2016	2016	
Profit & Loss Data					
Revenues	90,922	100%	79,816	100%	14%
Costs and expenses	50,293	55%	44,551	56%	13%
Operating Income	40,629	45%	35,265	44%	15%
Net Income	27,574	30%	23,806	30%	16%
EBITDA	49,037	54%	42,517	53%	15%
	Dec 31 2017	% to Total Assets	Dec 31 2016	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	538,615	100%	465,560	100%	16%
Investment Properties	273,084	51%	251,499	54%	9%
Total Debt	193,598	36%	164,378	35%	18%
Net Debt	148,495	28%	138,258	30%	7%
Total Equity	258,957	48%	231,481	50%	12%
	Dec 31				
Financial Ratios					
	2017		2016		
Debt to Equity	0.43 : 0.57		0.42 : 0.58		
Net Debt to Equity	0.36 : 0.64		0.37 : 0.63		
Return on Equity	0.11		0.11		
Debt to EBITDA	3.95		3.87		
Interest Coverage Ratio	8.96		9.64		
Operating Income to Revenues	0.45		0.44		
EBITDA Margin	0.54		0.53		
Net Income to Revenues	0.30		0.30		

Revenue

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

Rent

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

Real Estate Sales

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

Interest Expense

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

Interest and Dividend Income

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

Other income (charges) - net

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

Provision for income tax

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

Net income attributable to Equity holders of the Parent

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2016

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

Financial and Operational Highlights

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

	Twelve months ended Dec 31				
	2016	% to Revenues	2015	% to Revenues	% Change
Profit & Loss Data					
Revenues	79,816	100%	71,511	100%	12%
Costs and expenses	44,551	56%	40,072	56%	11%
Operating Income	35,265	44%	31,439	44%	12%
Net Income	23,806	30%	20,892	29%	14%
EBITDA	42,517	53%	37,815	53%	12%
	Dec 31 2016	% to Total Assets	Dec 31 2015	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	465,560	100%	434,966	100%	7%
Investment Properties	251,499	54%	230,340	53%	9%
Total Debt	164,378	35%	155,668	36%	6%
Net Debt	138,258	30%	128,955	30%	7%
Total Equity	231,481	50%	212,489	49%	9%
	Dec 31				
Financial Ratios					
	2016		2015		
Debt to Equity	0.42 : 0.58		0.42 : 0.58		
Net Debt to Equity	0.37 : 0.63		0.38 : 0.62		
Return on Equity	0.11		0.10		
Debt to EBITDA	3.87		4.12		
Interest Coverage Ratio	9.64		11.19		
Operating Income to Revenues	0.44		0.44		
EBITDA Margin	0.53		0.53		
Net Income to Revenues*	0.30		0.29		

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

Revenue

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

Rent

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

Real Estate Sales

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

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

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

Interest Expense

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

Interest and Dividend Income

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

Other income (charges) - net

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

Provision for income tax

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

Net income attributable to Equity holders of the Parent

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in and disagreements with accountants on accounting and financial disclosure

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

ITEM 12. Mergers, Consolidations Acquisitions and Similar Matters

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

ITEM 13. Acquisition or Disposition of Property

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

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

ITEM 14. Restatement of Account

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

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

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

- (a) Minutes of the annual meeting of stockholders held on April 24, 2018.
- (b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

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

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

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

ITEM 16. Matters not Required to be Submitted

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

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

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

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

ITEM 18. Other Proposed Action

The following items will be presented to the stockholders during this year's annual meeting:

- (a) Approval of Minutes of Annual Stockholders' Meeting held on April 24, 2018;
- (b) Ratification of Acts of Board of Directors, Board Committees and Management during their term;
- (c) Approval of Annual Report for 2018;
- (d) Election of directors for 2019-2020;
- (e) Appointment of external auditor for 2019.

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

ITEM 19. Voting Procedures

Vote required for approval

Matters subject to stockholder approval, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him.

All matters presented to stockholders at this year's Annual Stockholders' Meeting, including election of directors, require only a majority of the stockholders present or by proxy for approval.

Methods by which votes will be casted and counted

The Company's By-Laws does not prescribe a manner of voting by stockholders. However, election of directors will be conducted by ballot if so requested by voting stockholders. For election of directors, the stockholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement.

Stockholders may vote by personally attending the meeting or through their appointed proxies. Certificated stockholders who cannot personally attend the meeting can also cast their votes through the Company's secure online voting facility for this meeting. The voting procedure for online voting is herein attached as annex.

Validation of votes

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

Pursuant to the Company's By-laws, proxy forms must be submitted to the Corporate Secretary at least seventy-two (72) hours before the day of the annual meeting.

Proxies therefore should be submitted no later than 2:30 p.m. on April 20, 2019 at the Office of the Corporate Secretary at the 33rd Floor The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City. A suggested format for the proxy form is available at SMPH's website and is here attached.

After the deadline of submission of proxies, validation of proxies shall be convened on April 21, 2019 at the office of the Corporate Secretary. The validation shall be headed by the Corporate Secretary and in coordination with SMPH's stock and transfer agent, and attended by SGV & Co. as independent validator and tabulator of votes.

Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be resolved by the Corporate Secretary at that forum. The Corporate Secretary's decision shall be final and binding on the stockholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

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

CASH DIVIDEND PER SHARE - ₱0.35 in 2018, ₱0.26 in 2017 and ₱0.23 in 2016.

As of the date of this report, final dividends for 2019 have not yet been declared. This will be discussed in the next board meeting.

Stock Prices	2018			2017		
	High	Low	High	Low		
First Quarter	₱ 39.70	₱ 33.00	₱ 31.50	₱ 27.40		
Second Quarter	38.70	32.10	35.20	28.20		
Third Quarter	39.50	35.20	35.15	32.70		
Fourth Quarter	37.50	31.45	38.25	34.55		

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

As of February 28, 2019, the closing price of the Company's shares of stock is ₱38.35/share. For the two months ending February 28, 2019, stock prices of SMPH were at a high of ₱39.95 and a low of ₱35.85.

The number of shareholders of record as of February 28, 2019 was 2,401. Capital stock issued and outstanding as of February 28, 2019 was 28,879,231,694.

The Company targets a dividend payout of 30 to 35 percent of the previous year's net income. As of December 31, 2018, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 20 of the consolidated financial statements.

The top 20 stockholders of the Company as of February 28, 2019 are as follows:

	Name	No. of Shares Held	% to Total
1.	SM Investments Corporation	14,353,464,952	49.70
2.	PCD Nominee Corp. (Non-Filipino)	5,752,103,705	19.92
3.	PCD Nominee Corp. (Filipino)	1,174,140,911	4.07
4.	Henry Sy, Jr.	687,953,713	2.38
5.	Herbert T. Sy	656,120,447	2.27
6.	Hans T. Sy	655,650,971	2.27
7.	Syntrix Holdings, Inc.	312,726,835	1.08
8.	Sysmart Corporation	263,226,285	0.91
9.	Cutad, Inc.	19,694,544	0.07
10.	HSBB, Inc.	19,694,400	0.07
11.	Harley T. Sy	3,443,065	0.01
12.	Lucky Securities, Inc.	3,000,000	0.01
13.	Elizabeth T. Sy	2,033,110	0.01
14.	Teresita T. Sy	1,352,902	0.00
15.	Jose T. Tan &/or Pacita L. Tan	892,126	0.00
16.	Senen Mendiola	800,763	0.00
17.	Deborah Pe	781,909	0.00
18.	Chen Zan Xing	771,611	0.00
19.	Edwin Francis L. Tan	610,402	0.00
20.	Eric Ruben L. Tan	610,402	0.00

As discussed in the notes to the consolidated financial statements, the Company registered with the Securities and Exchange Commission the ₱20 billion fixed rate bonds issued on March 1, 2018. The issue consists of the five-year or Series H Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 5.6630% per annum due on March 1, 2023 and seven-year or Series I Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 6.0804% per annum due on March 1, 2025.

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

ITEM 21. Corporate Governance

A significant contributor to the Company's continued success is the commitment of its directors, officers and employees to foster a culture of fairness, integrity, accountability and transparency at all levels within the organization. Through the Company's Manual on Corporate Governance ("Manual"), various initiatives were launched in line with the best practices as contained in its Manual.

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

To operationalize the Manual and to continuously strengthen the Company's corporate governance culture, various efforts were done, which include, among others, (1) creation of policies, (2) conduct of classroom trainings and (2) cascade of e-Learning courses and email blasts relating to corporate governance matters.

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

Furthermore, the Human Resource Department's (HRD) orientation program gives new employees an overview of the various components of SM Prime's Corporate Governance Framework, the Code of Ethics and related policies which are also contained in an internal portal for employees' easy access and reference. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics. Relative to this, the HRD, on an annual basis, requires all employees to take the 3-part Corporate Governance program. This specifically includes the following:

- Confirmation – to confirm that employees have read and understood and agree to comply with the Company's Code of Ethics, Insider Trading Policy, Conflict of Interest Policy, and

Guidelines on Acceptance of Gifts and Travel Sponsored by Business Partners (Anti-Corruption Policy), among others

- Disclosure Survey - to disclose each employees' affiliations, interests, relationships, and/or transactions which are relevant for full disclosure of all actual, apparent or possible conflicts of interest
- e-Learning Courses (self-paced learning) - to be familiarized with the provisions of the Code of Ethics and other specific policies in upholding corporate governance in the workplace

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

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 7, 2019.

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

John Nai Peng C. Ong
John Nai Peng C. Ong
Chief Finance Officer

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

Consolidated Financial Statements

A. Statement of Management's Responsibility for Financial Statements	Attached
B. Independent Auditor's Report	Attached
C. Consolidated Balance Sheets as at December 31, 2018 and 2017	Attached
D. Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016	Attached
E. Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016	Attached
F. Consolidated Statements of Changes in Equity for the years ended December 31, 2018, 2017 and 2016	Attached
G. Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016	Attached
H. Notes to Consolidated Financial Statements	Attached

Supplementary Schedules

Report of Independent Public Accountants on Supplementary Schedules	Attached
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Annex 68-E

A. Financial Assets	Attached
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Sponsors	*
C. Amounts Receivable from Related parties which are Eliminated During the Consolidation of Financial Statements	Attached
D. Intangible Assets and Other Assets	*
E. Long-Term Debt	*
F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)	*
G. Guarantees of Securities of Other Issues	*
H. Capital Stock	Attached

Additional Components

Annex I: Reconciliation of Retained Earnings Available for Dividend Declarations	Attached
Annex II: List of Philippines Financial Reporting Standards effective as of December 31, 2018	Attached
Annex III: Map of Relationship of the Companies within the Group	Attached
Annex IV: Financial Ratios - Key Performance Indicators	Attached
Annex V: Recently Offered Securities to the Public (Retail Bond)	Attached

Others

Certificate of Non-employment of Directors and Officers to Government Positions	Attached
Certificate of Qualification of Independent Directors	Attached
2019 Annual Stockholders' Meeting Electronic Voting Procedure	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 Company's consolidated financial statements or the notes to consolidated financial statements.*

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

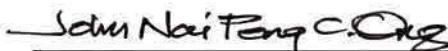
SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries in accordance with the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on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



Henry T. Sy, Jr.
Chairman



Jeffrey C. Lim
President



John Nai Peng C. Ong
Chief Finance Officer

Signed this 11th of February, 2019

FEB 26 2019

PASAY CITY

SUBSCRIBED AND SWORN to before me this _____ at _____.
affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY T. SY, JR.	[REDACTED]	[REDACTED]	Manila
JEFFREY C. LIM	[REDACTED]	[REDACTED]	Manila
JOHN NAI PENG C. ONG	[REDACTED]	[REDACTED]	Manila

DOC. No. 180
PAGE No. 37;
BOOK No. 20;
SERIES OF 2019;


JOSEFINA WAN-REMOLLO
Notary Public
UNTIL DECEMBER 31, 2019
PTR No. 6462801/01.30.19/Pasay City
IBP No. 071548/01.30.19/Bulacan
Roll No. 36042

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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



Adoption of PFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

Audit Response

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



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

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

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

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

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

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

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

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, 2018, 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, 2018 are expected to be made available to us after the date of this auditor's report.



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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- 5 -

- Conclude on the appropriateness of management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Sherwin V. Yason.

SYCIP GORRES VELAYO & CO.



Sherwin V. Yason

Partner

CPA Certificate No. 104921

SEC Accreditation No. 1514-AR-1 (Group A),

August 6, 2018, valid until August 5, 2021

Tax Identification No. 217-740-478

BIR Accreditation No. 08-001998-112-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 7332635, January 3, 2019, Makati City

February 11, 2019



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

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 28 and 29)	₱38,766,467	₱44,371,534
Financial assets at fair value through other comprehensive income (Notes 7, 21, 28 and 29)	-	731,076
Receivables and contract assets (Notes 8, 15, 16, 21, 28 and 29)	35,229,450	33,990,678
Condominium and residential units for sale (Notes 2 and 9)	8,088,139	8,733,299
Land and development (Notes 2 and 10)	29,486,964	22,518,138
Equity instruments at fair value through other comprehensive income (Notes 11, 21, 28 and 29)	639,316	641,300
Derivative assets (Notes 28 and 29)	432,898	-
Prepaid expenses and other current assets (Notes 12, 21, 28 and 29)	15,147,029	14,590,015
Total Current Assets	127,790,263	125,576,040
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	26,199,380	24,566,239
Equity instruments at fair value through other comprehensive income - net of current portion (Notes 11, 21, 28 and 29)	22,892,937	30,464,845
Property and equipment - net (Note 13)	1,419,111	1,493,427
Investment properties - net (Notes 14 and 19)	293,574,616	273,084,146
Land and development - net of current portion (Note 10)	49,844,246	36,148,036
Derivative assets - net of current portion (Notes 28 and 29)	420,035	3,546,694
Deferred tax assets - net (Note 26)	1,083,670	1,114,291
Other noncurrent assets (Notes 16, 21, 25, 28 and 29)	80,910,060	42,423,880
Total Noncurrent Assets	476,344,055	412,841,558
	₱604,134,318	₱538,417,598
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 28 and 29)	₱39,400	₱744,400
Accounts payable and other current liabilities (Notes 18, 21, 28 and 29)	61,767,086	51,084,082
Current portion of long-term debt (Notes 19, 21, 28 and 29)	25,089,624	25,344,035
Income tax payable	1,383,742	1,035,215
Total Current Liabilities	88,279,852	78,207,732
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	197,682,262	167,509,484
Tenants' and customers' deposits - net of current portion (Notes 18, 27, 28 and 29)	18,676,022	16,376,024
Liability for purchased land - net of current portion (Notes 18, 28 and 29)	6,044,220	2,170,998
Deferred tax liabilities - net (Note 26)	3,527,501	2,877,971
Derivative liabilities (Notes 28 and 29)	335,008	777,408
Other noncurrent liabilities (Notes 16, 18, 25, 28 and 29)	10,511,491	7,624,067
Total Noncurrent Liabilities	236,776,504	197,335,952
Total Liabilities (Carried Forward)	325,056,356	275,543,684



	December 31	
	2018	2017
Total Liabilities (<i>Brought Forward</i>)	₱325,056,356	₱275,543,684
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 20 and 30)	33,166,300	33,166,300
Additional paid-in capital - net (Notes 5 and 20)	39,953,218	39,662,168
Cumulative translation adjustment	1,955,999	2,110,745
Net fair value changes of equity instruments at fair value through other comprehensive income (Note 11)	19,084,597	25,489,705
Net fair value changes on cash flow hedges (Note 29)	(842,098)	(311,429)
Remeasurement loss on defined benefit obligation (Note 25)	(348,480)	(199,126)
Retained earnings (Note 20):		
Appropriated	42,200,000	42,200,000
Unappropriated	143,118,153	120,125,945
Treasury stock (Notes 20 and 30)	(2,984,695)	(3,287,087)
Total Equity Attributable to Equity Holders of the Parent	275,302,994	258,957,221
Non-controlling Interests (Note 20)	3,774,968	3,916,693
Total Equity	₱279,077,962	₱262,873,914
	₱604,134,318	₱538,417,598

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Rent (Notes 21, 22 and 27)	₱57,162,796	₱51,406,294	₱45,693,269
Sales:			
Real estate	35,872,552	29,434,050	24,999,811
Cinema and event ticket	5,218,434	4,767,364	4,666,686
Others (Notes 21 and 22)	5,826,783	5,314,142	4,456,465
	104,080,565	90,921,850	79,816,231
COSTS AND EXPENSES (Note 23)	55,753,334	50,293,058	44,551,175
INCOME FROM OPERATIONS	48,327,231	40,628,792	35,265,056
OTHER INCOME (CHARGES)			
Interest expense (Notes 21, 24, 28 and 29)	(7,540,045)	(5,474,422)	(4,409,614)
Interest and dividend income (Notes 7, 11, 21 and 24)	1,828,776	1,214,347	1,114,931
Others - net (Notes 7, 15, 19, 21 and 29)	(649,787)	(420,856)	(981,696)
	(6,361,056)	(4,680,931)	(4,276,379)
INCOME BEFORE INCOME TAX	41,966,175	35,947,861	30,988,677
PROVISION FOR INCOME TAX (Note 26)			
Current	8,534,428	7,531,782	6,335,370
Deferred	520,618	291,616	285,683
	9,055,046	7,823,398	6,621,053
NET INCOME	₱32,911,129	₱28,124,463	₱24,367,624
Attributable to:			
Equity holders of the Parent (Notes 20 and 30)	₱32,172,886	₱27,573,866	₱23,805,713
Non-controlling interests (Note 20)	738,243	550,597	561,911
	₱32,911,129	₱28,124,463	₱24,367,624
Basic/Diluted earnings per share (Note 30)	₱1.115	₱0.956	₱0.826

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME	₱32,911,129	₱28,124,463	₱24,367,624
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) due to changes in fair value of financial assets at fair value through other comprehensive income (Note 11)	(5,287,209)	7,987,295	880,863
Remeasurement gain (loss) on defined benefit obligation (Note 25)	(152,405)	(244,103)	82,202
	(5,439,614)	7,743,192	963,065
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Net fair value changes on cash flow hedges (Note 29)	(530,669)	(1,123,054)	382,826
Cumulative translation adjustment	(154,746)	710,372	394,395
	(6,125,029)	7,330,510	1,740,286
TOTAL COMPREHENSIVE INCOME	₱26,786,100	₱35,454,973	₱26,107,910
Attributable to:			
Equity holders of the Parent (Notes 20 and 30)	₱26,050,908	₱34,906,622	₱25,542,289
Non-controlling interests (Note 20)	735,192	548,351	565,621
	₱26,786,100	₱35,454,973	₱26,107,910

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Thousands)

Equity Attributable to Equity Holders of the Parent													
	Capital Stock (Notes 20 and 30)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at fair value through other comprehensive income (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20)	Treasury Stock (Notes 20 and 30)	Non-controlling Interests (Note 20)	Total	Total Equity		
At January 1, 2018	₱33,166,300	₱39,662,168	₱2,110,745	₱25,489,705	(₱311,429)	(₱199,126)	₱42,200,000	₱120,125,945	(₱3,287,087)	₱258,957,221	₱3,916,693	₱262,873,914	
Net income for the year	—	—	—	—	—	—	—	32,172,886	—	32,172,886	738,243	32,911,129	
Transfer of unrealized gain on equity instruments at fair value through other comprehensive income	—	—	—	(1,117,899)	—	—	—	1,117,899	—	—	—	—	
Other comprehensive income (loss)	—	—	(154,746)	(5,287,209)	(530,669)	(149,354)	—	—	—	(6,121,978)	(3,051)	(6,125,029)	
Total comprehensive income (loss) for the year	—	—	(154,746)	(6,405,108)	(530,669)	(149,354)	—	33,290,785	—	26,050,908	735,192	26,786,100	
Cash dividends (Note 20)	—	—	—	—	—	—	—	(10,307,731)	—	(10,307,731)	—	(10,307,731)	
Cash dividends received by a subsidiary	—	—	—	—	—	—	—	9,154	—	9,154	—	9,154	
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(576,200)	(576,200)	
Sale of treasury shares held by subsidiary	—	282,816	—	—	—	—	—	—	302,392	585,208	—	585,208	
Sale (acquisition) of non-controlling interests (Notes 2 and 5)	—	8,234	—	—	—	—	—	—	—	8,234	(300,717)	(292,483)	
At December 31, 2018	₱33,166,300	₱39,953,218	₱1,955,999	₱19,084,597	(₱842,098)	(₱348,480)	₱42,200,000	₱143,118,153	(₱2,984,695)	₱275,302,994	₱3,774,968	₱279,077,962	
At January 1, 2017, as previously reported	₱33,166,300	₱39,545,625	₱1,400,373	₱17,502,410	₱811,625	₱39,687	₱42,200,000	₱100,170,486	(₱3,355,474)	₱231,481,032	₱3,882,512	₱235,363,544	
Effect of common control business combination (Note 5)	—	—	—	—	—	(3,046)	—	—	—	(3,046)	(585)	(3,631)	
At January 1, 2017, as adjusted	33,166,300	39,545,625	1,400,373	17,502,410	811,625	36,641	42,200,000	100,170,486	(3,355,474)	231,477,986	3,881,927	235,359,913	
Net income for the year	—	—	—	—	—	—	—	27,573,866	—	27,573,866	550,597	28,124,463	
Other comprehensive income (loss)	—	—	710,372	7,987,295	(1,123,054)	(241,857)	—	—	—	7,332,756	(2,246)	7,330,510	
Total comprehensive income (loss) for the year	—	—	710,372	7,987,295	(1,123,054)	(241,857)	—	27,573,866	—	34,906,622	548,351	35,454,973	
Cash dividends (Note 20)	—	—	—	—	—	—	—	(7,708,600)	—	(7,708,600)	—	(7,708,600)	
Cash dividends received by a subsidiary	—	—	—	—	—	—	—	11,862	—	11,862	—	11,862	
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(580,791)	(580,791)	
Sale of treasury shares held by subsidiary	—	89,929	—	—	—	—	—	—	—	68,387	158,316	—	158,316
Acquisition of subsidiary (Note 14)	—	—	—	—	—	—	—	—	—	—	327,729	327,729	
Sale (acquisition) of non-controlling interests (Notes 2 and 5)	—	26,614	—	—	—	6,090	—	78,331	—	111,035	(260,523)	(149,488)	
At December 31, 2017	₱33,166,300	₱39,662,168	₱2,110,745	₱25,489,705	(₱311,429)	(₱199,126)	₱42,200,000	₱120,125,945	(₱3,287,087)	₱258,957,221	₱3,916,693	₱262,873,914	



Equity Attributable to Equity Holders of the Parent												
	Capital Stock (Notes 5, 20 and 30)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at fair value through other comprehensive income (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20) Appropriated	Retained Earnings (Note 20) Unappropriated	Treasury Stock (Notes 20 and 30)	Total	Non-controlling Interests (Note 20)	Total Equity
At January 1, 2016	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458) 11,653	₱42,200,000	₱83,168,103 (171,600)	(₱3,355,474)	₱212,488,822	₱3,354,025 38,382	₱215,842,847 120,033
Effect of common control business combination (Note 5)	—	241,598	—	—	—	—	—	—	—	81,651	—	—
At January 1, 2016	33,166,300	39,545,625	1,005,978	16,621,547	428,799	(38,805)	42,200,000	82,996,503	(3,355,474)	212,570,473	3,392,407	215,962,880
Net income for the year	—	—	—	—	—	—	—	23,805,713	—	23,805,713	561,911	24,367,624
Other comprehensive income (loss)	—	—	394,395	880,863	382,826	78,492	—	—	—	—	1,736,576	3,710
Total comprehensive income (loss) for the year	—	—	394,395	880,863	382,826	78,492	—	23,805,713	—	25,542,289	565,621	26,107,910
Cash dividends (Note 20)	—	—	—	—	—	—	—	(6,642,223)	—	(6,642,223)	—	(6,642,223)
Cash dividends received by a subsidiary	—	—	—	—	—	—	—	10,493	—	10,493	—	10,493
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(505,291)	(505,291)
Acquisition of subsidiaries (Note 14)	—	—	—	—	—	—	—	—	—	—	429,775	429,775
At December 31, 2016	₱33,166,300	₱39,545,625	₱1,400,373	₱17,502,410	₱811,625	₱39,687	₱42,200,000	₱100,170,486	(₱3,355,474)	₱231,481,032	₱3,882,512	₱235,363,544

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱41,966,175	₱35,947,861	₱30,988,677
Adjustments for:			
Depreciation and amortization (Note 23)	9,655,426	8,959,170	7,814,344
Interest expense (Note 24)	7,540,045	5,474,422	4,409,614
Interest and dividend income (Notes 7, 11 and 24)	(1,828,776)	(1,214,347)	(1,114,931)
Loss (gain) on:			
Unrealized foreign exchange - net	557,067	(26,266)	556,343
Mark-to-market on investments held for trading (Note 7)	–	13,690	(61,424)
Disposal of investments held for trading (Note 7)	–	10,096	–
Equity in net earnings of associates and joint ventures (Note 15)	(1,297,528)	(1,106,816)	(471,081)
Operating income before working capital changes	56,592,409	48,057,810	42,121,542
Decrease (increase) in:			
Receivables and contract assets	(11,618,774)	(6,715,156)	(2,796,008)
Condominium and residential units for sale	4,398,296	4,744,813	6,475,919
Current portion of land and development	(6,523,262)	(2,965,245)	(10,930,360)
Prepaid expenses and other current assets	(557,890)	(2,368,411)	(470,119)
Increase in:			
Accounts payable and other liabilities	9,552,450	11,154,924	1,669,684
Tenants' and customers' deposits	2,306,209	1,476,602	1,606,956
Cash generated from operations	54,149,438	53,385,337	37,677,614
Income tax paid	(8,185,024)	(7,607,930)	(6,186,690)
Net cash provided by operating activities	45,964,414	45,777,407	31,490,924
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets at FVOCI	3,023,585	–	–
Available-for-sale investments	–	–	2,529
Investments held for trading (Note 7)	–	286,500	–
Interest received	1,417,478	823,686	766,565
Dividends received	577,014	603,011	377,385
Additions to:			
Investment properties (Note 14)	(31,244,741)	(26,658,723)	(30,376,621)
Land and development - noncurrent portion	(9,107,248)	(16,019,718)	3,355,087
Property and equipment (Note 13)	(126,355)	(132,262)	(337,071)
Equity instruments at FVOCI (Note 11)	(5,826)	(1,906,125)	(2,045)
Investments held for trading	–	(122,660)	–
Investments in associates and joint ventures and acquisition of a subsidiary - net of cash acquired (Notes 5 and 15)	(509,282)	(775,500)	(331,000)
Decrease (increase) in bonds and deposits and other noncurrent assets (Note 16)	(28,102,681)	2,889,806	(534,737)
Net cash used in investing activities	(64,078,056)	(41,011,985)	(27,079,908)

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 17 and 19)	₱54,115,835	₱41,997,671	₱34,380,938
Payments of:			
Bank loans (Notes 17 and 19)	(27,212,233)	(14,546,140)	(28,797,979)
Dividends (Note 20)	(10,874,777)	(8,277,529)	(7,137,021)
Interest	(7,193,222)	(5,156,332)	(4,049,935)
Proceeds from:			
Maturity of derivatives	3,212,542	—	—
Reissuance of treasury shares (Note 20)	585,207	158,316	—
Net cash provided by (used in) financing activities	12,633,352	14,175,986	(5,603,997)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(124,777)	229,144	524,055
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(5,605,067)	19,170,552	(668,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	44,371,534	25,200,982	25,869,908
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	₱38,766,467	₱44,371,534	₱25,200,982

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

As at December 31, 2018, SMPH is 49.70% and 25.86% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the “SM Group”.

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 11, 2019.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that 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 accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, and Memorandum Circular No. 3, Series of 2019, as discussed in Note 3 to the consolidated financial statements.



Basis of Consolidation

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

Company	Country of Incorporation	Percentage of Ownership	
		2018	2017
Malls			
First Asia Realty Development Corporation	Philippines	74.2	74.2
Premier Central, Inc.	- do -	100.0	100.0
Consolidated Prime Dev. Corp.	- do -	100.0	100.0
Premier Southern Corp. (PSC)	- do -	100.0	100.0
San Lazaro Holdings Corporation	- do -	100.0	100.0
Southernpoint Properties Corp.	- do -	100.0	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.0	50.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	100.0	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	100.0	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	100.0	100.0
Springfield Global Enterprises Limited	- do -	100.0	100.0
Simply Prestige Limited and Subsidiaries	- do -	100.0	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	100.0	100.0
Rushmore Holdings, Inc.	Philippines	100.0	100.0
Prime Commercial Property Management Corporation and Subsidiaries (PCPMC)	- do -	100.0	100.0
Magenta Legacy, Inc.	- do -	100.0	100.0
Associated Development Corporation	- do -	100.0	100.0
Prime Metroestate, Inc. and Subsidiary	- do -	60.0	60.0
SM Arena Complex Corporation	- do -	100.0	100.0
Mindpro Incorporated (Mindpro)	- do -	70.0	70.0
A. Canicosa Holdings, Inc.	- do -	100.0	100.0
AD Canicosa Properties, Inc.	- do -	100.0	100.0
Cherry Realty Development Corporation*	- do -	91.3	65.0
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	100.0	100.0
Highlands Prime Inc. (HPI)	- do -	100.0	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)	- do -	100.0	100.0
Commercial			
Tagaytay Resort Development Corporation	- do -	100.0	100.0
MOA Esplanade Port, Inc.	- do -	100.0	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	100.0	100.0

*Acquired in 2017 which was accounted for as acquisition of assets - single-asset entity (see Note 14).

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

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



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

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

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

Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Existence of a Contract. The Company's primary document for a contract with a customer is a signed contract to sell or the combination of its other signed documentation such as reservation agreement, official receipts, quotation sheets and other documents, would contain all the criteria to qualify as contract with the customer under PFRS 15.

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

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

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases. The ownership of



the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

Rent income amounted to ₦57,163 million, ₦51,406 million and ₦45,693 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 27).

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

Rent expense amounted to ₦1,730 million, ₦1,598 million and ₦1,451 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 23 and 27).

Estimates and Assumptions

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

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

Revenue from sale of real estate amounted to ₦35,873 million, ₦29,434 million and ₦25,000 million for the years ended December 31, 2018, 2017 and 2016, respectively, while the cost of real estate sold amounted to ₦17,769 million, ₦15,152 million and ₦13,117 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 23).

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

The allowance for ECLs amounted to ₦1,034 million and ₦1,054 million as at December 31, 2018 and January 1, 2018, respectively.

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



The carrying values of condominium and residential units for sale and current portion of land and development amounted to ₡8,088 million and ₡29,487 million as at December 31, 2018, respectively, and ₡8,733 million and ₡22,518 million as at December 31, 2017, respectively (see Notes 9 and 10).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₡294,994 million and ₡274,578 million as at December 31, 2018 and 2017, respectively (see Notes 13 and 14).

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

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

The aggregate carrying values of investments in associates and joint ventures, property and equipment, investment properties, noncurrent portion of land and development and other noncurrent assets (excluding time deposits) amounted to ₡449,555 million and ₡373,915 million as at December 31, 2018 and 2017, respectively (see Notes 13, 14, 15 and 16).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized.

Deferred tax assets - net recognized in the consolidated balance sheets amounted to ₡1,084 million and ₡1,114 million as at December 31, 2018 and 2017, respectively (see Note 26).

Fair Value of Assets and Liabilities. The Company carries and discloses certain assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. The significant components of fair value measurement were determined using verifiable objective evidence (i.e.,



foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these assets and liabilities that are carried in the consolidated financial statements would directly affect consolidated statements of income and consolidated other comprehensive income.

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

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

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The amendments are not applicable to the Company since it has no share-based payment transactions.

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



The Company applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The effect of adopting PFRS 9 follows:

(a) Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost, or FVOCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Company. The Company continued measuring at fair value all financial assets previously held at fair value under PAS 39.

The following are the changes in the classification of the Company's financial assets:

- Cash and cash equivalents, receivables and other financial assets (i.e., cash in escrow, time deposits) amounting to ₡98,068 million as at December 31, 2017 previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost, except for unbilled revenue from sale of real estate amounting to ₡34,083 million, beginning January 1, 2018.
- Investments held for trading amounting to ₡731 million as at December 31, 2017 were reclassified as financial assets at FVOCI.
- Equity instruments previously classified as available-for-sale (AFS) financial assets amounting to ₡31,106 million as at December 31, 2017 are now classified and measured as equity instrument at FVOCI. There were no impairment losses recognized in profit or loss for these investments in prior periods.

There are no changes in classification and measurement for the Company's financial liabilities.

(b) Impairment

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

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

(c) Hedge accounting

At the date of initial application, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PFRS 9, the



Company designated the change in fair value of the entire cross currency swaps, interest rate swaps and principal only swaps contracts as cash flow hedges. Changes in the fair value of the cross currency swaps, interest rate swaps and principal only swaps contracts are recognized in OCI and accumulated as a separate component of equity under net fair value changes on cash flow hedges.

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

The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

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

On February 14, 2018, the Philippine Interpretations Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of 3 years:

- Exclusion of land and uninstalled materials in the determination of POC discussed in PIC Q&A 2018-12-E
- Accounting for significant financing component discussed in PIC Q&A 2018-12-D
- Accounting for Common Usage Service Area (CUSA) charges discussed in PIC Q&A 2018-12-H

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A 2018-14: PFRS 15 – Accounting for Cancellation of Real Estate Sales was also deferred.



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

Given the deferral of the implementation of certain provisions of PIC Q&A 2018-12 and PIC Q&A 2018-14, adoption of PFRS 15 have no material impact to the consolidated financial statements.

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A resulted to the reclassification of land and development from real estate inventories to investment property (see Note 10).
- PIC Q&A 2018-15, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment). The Company's policy on the classification of prepayments is consistent with the interpretation hence adoption of the PIC Q&A did not have any significant impact in the Company.
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRS 2014 - 2016 Cycle*), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVTPL. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) - 22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must



determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*, allow debt instrument to be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of adopting this standard.
- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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



- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*, address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
 - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
 - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*, clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

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

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Company is currently assessing the impact of adopting this standard.

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

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities



- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*, clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

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

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*, clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*, clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. The Company is currently assessing the impact of adopting this standard.



Effective beginning on or after January 1, 2020

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

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*, refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. The Company is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2021

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

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

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The Company is currently assessing the impact of adopting this standard.



Deferred effectivity

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

Cash and Cash Equivalents

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

Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Company has determined classes of



assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Effective beginning January 1, 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial recognition and measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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



Subsequent measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- *Financial assets at amortized cost (debt instruments):* The Company measures financial assets at amortized cost if both of the following conditions are met:
 - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
 - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Company's financial assets at amortized cost includes cash and cash equivalents, receivables, cash in escrow (included under "Prepaid expenses and other current assets" account) and time deposits (included under "Other noncurrent assets" account). Other than those financial assets at amortized cost whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₦2,393 million as at December 31, 2018 (see Note 29).

- *Financial assets at FVOCI (debt instruments):* The Company measures debt instruments at FVOCI if both of the following conditions are met:
 - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
 - Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Classified under this category are debt instruments held for trading. The carrying values of financial assets classified under this category amounted to nil as at December 31, 2018 (see Note 29).

- *Financial assets at FVTPL.* Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated balance sheet at fair value with net changes in fair value recognized in the consolidated statement of income.

This category includes derivative instruments. The carrying values of financial assets classified under this category amounted to ₦853 million as at December 31, 2018 (see Note 29).



A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Embedded derivatives are measured at fair value with changes in FVTPL. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

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

- *Financial assets at FVOCI (equity instruments).* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

The Company elected to classify irrevocably its investments in equity instruments under this category.

Classified under this category are the investments in shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₦23,532 million as at December 31, 2018 (see Note 29).

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.



Impairment of financial assets. The Company recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The Company uses a provision matrix for rent and other receivables and unbilled revenue from sale of real estate, vintage approach for receivables from sale of real estate and simplified approach (low credit risk simplification) for treasury assets to calculate ECLs.

The Company applies provision matrix and has calculated ECLs based on lifetime ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date, adjusted for forward-looking factors specific to the debtors and the economic environment.

Vintage approach accounts for expected credit losses by calculating the cumulative loss rates of a given real estate receivable pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as, but not limited to, forward-looking data on inflation rate was added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points. The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on the type of unit. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, refurbishment, payment required under Macea law, cost to complete (for incomplete units). As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original effective interest rate (EIR) or an approximation thereof.

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

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Effective before January 1, 2018

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



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

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

- *Financial assets at FVTPL.* Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL.

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

Financial assets may be designated by management at initial recognition as FVTPL 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 or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Classified as financial assets at FVTPL are the Company’s investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₡4,278 million as at December 31, 2017.

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



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 collectability is within twelve months from reporting period. Otherwise, these are classified as noncurrent assets.

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

- *AFS Investments.* AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance 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 until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in the consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within twelve months from reporting period and as noncurrent assets if expected date of disposal is more than twelve months from reporting period.

Classified under this category are the investments in quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₡31,106 million as at December 31, 2017.

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

- *Financial assets carried at amortized cost.* The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for



impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

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

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated 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 Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income under "Others - net" account.

- *Financial Assets Carried at Cost.* If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.
- *AFS Investments.* In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated 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 and dividend income" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Financial Liabilities

Initial recognition and measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.



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

Subsequent measurement. The Company classifies its financial liabilities in the following categories:

- *Financial liabilities at FVTPL.* Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under liabilities at FVTPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income under “Others - net” account. Classified as financial liabilities at FVTPL are the Company’s derivative liabilities amounting to ₡335 million and ₡777 million as at December 31, 2018 and 2017, respectively (see Note 29).

- *Loans and borrowings.* This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the loans and borrowings are derecognized, as well as through the amortization process. Loans and borrowings are included under current liabilities if settlement is within twelve months from reporting period. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants’ deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₡228,983 million and ₡190,846 million as at December 31, 2018 and 2017, respectively (see Note 29).

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.



Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

Debt Issue Costs

Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments

Initial recognition and subsequent measurement. The Company uses derivative financial instruments, such as non-deliverable forwards, cross currency swaps, interest rate swaps and principal only swaps contracts to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Company only has hedges classified as cash flow hedges. These hedge the exposures to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Effective January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of



hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

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

The Company uses cross currency swaps, interest rate swaps and principal only swaps contracts to hedge its foreign currency risks and interest rate risks.

Changes in the fair value of the cross currency swaps, interest rate swaps and principal only swaps contracts are recognized in OCI and accumulated as a separate component of equity under Net fair value changes on cash flow hedges.

Before 1 January 2018, the Company designated all of the cross currency swaps, interest rate swaps and principal only swaps contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash flow hedges, which were recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

Effective January 1, 2018, the Company designates only the elements of the cross currency swaps, interest rate swaps and principal only swaps contracts as hedging instruments to achieve its risk management objective. These elements are recognized in OCI and accumulated in a separate component of equity under net fair value changes on cash flow hedges.

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

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

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After



discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Condominium and Residential Units for Sale and Current Portion of Land and Development

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

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

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

Prepaid Expenses and Other Current Assets

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

Property Acquisitions and Business Combinations

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

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

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

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the costs and expenses.



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

If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled and final difference is recognized within equity.

Common Control Business Combinations

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

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

Acquisition of Non-controlling Interests

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity and included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheet.

Property and Equipment

Property and equipment, except land and construction in progress, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition



criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

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

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

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

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

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

Investment Property

This account consists of investment properties and noncurrent portion of land and development presented in the consolidated balance sheets. These accounts consist of commercial spaces/properties held for rental and/or capital appreciation and land held for future development. These accounts are measured initially at cost. The cost of a purchased investment property and land for future development comprises of its purchase price and any directly attributable costs. Subsequently, these accounts, except land and construction in progress, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.



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

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

Land improvements	5 years
Buildings and improvements	20–40 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or term of lease whichever is shorter

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

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

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

Transfers are made from investment property to inventories when, and only when, there is a change in use, as evidenced by an approved plan to construct and develop condominium and residential units for sale. Transfers are made to investment property from inventories when, and only when, there is change in use, as evidenced by commencement of an operating lease to a third party or change in the originally approved plan. The cost of property for subsequent accounting is its carrying value at the date of change in use.

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

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

Investments in Associates and Joint Ventures

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

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



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

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

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

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

Also, appropriate adjustments to the Company's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture.

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PFRS 9, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value. Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statement of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.



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

Other Noncurrent Assets

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

Impairment of Nonfinancial Assets

The carrying values of investments in associates and joint ventures, property and equipment, investment properties, noncurrent portion of land and development accounted for as investment property, and other noncurrent assets (excluding time deposits) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated 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. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated 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.

Tenants' Deposits

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

Customers' Deposits

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

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.



Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as “Additional paid-in capital - net” account.

Retained Earnings

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

Treasury Stock

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

Dividends

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

Revenue Recognition

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

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2.

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

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

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

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

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

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



Revenue and Cost from Sale of Real Estate effective beginning January 1, 2018. The Company derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

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

Estimated development costs of the real estate project include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis.

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

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

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

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

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

Cost of real estate sold. The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of real estate sold while the portion allocable to the unsold area being recognized as part of real estate inventories (condominium and residential units for sale and current portion of land and development). In



addition, the Company recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

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

Contract assets. These pertain to unbilled revenue from sale of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. This is reclassified as trade receivable from sale of real estate when the monthly amortization of the customer is already due for collection.

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

Costs to obtain contract. The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. The Company has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

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

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

The Company's contract fulfillment assets mainly pertain to land acquisition costs (included under current portion of land and development).

Amortization, de-recognition and impairment of contract fulfillment assets and capitalized costs to obtain a contract. The Company amortizes contract fulfillment assets and capitalized costs to obtain a contract to cost of sales over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included within cost of real estate sold.

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



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

Where the relevant costs are demonstrating indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets.

Revenue and Cost Recognition from Sale of Real Estate effective before January 1, 2018. The Company assesses whether it is probable that the economic benefits will flow to the Company when the sales prices are collectible. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections, credit standing of the buyer and location of the property.

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

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

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

Cost of real estate sold. Cost of real estate sold is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works. The cost of inventory recognized in the consolidated 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 percentage of completion used for revenue recognition purposes. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affects cost of real estate sold and gross profit are recognized in the year in which changes are determined.

Management Fees

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



General, Administrative and Other Expenses

Costs and expenses are recognized as incurred.

Pension Benefits

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

Defined benefit pension costs comprise the following:

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

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

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit obligation or asset is recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statement of income.

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

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

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

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine peso, which is SMPH's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at reporting period. Nonmonetary



items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions

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



Borrowing Costs

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

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

Taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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



reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

Income tax relating to items recognized directly in the consolidated 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 the deferred taxes relate to the same taxable entity and the same taxation authority.

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

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of “Accounts payable and other current liabilities” account in the consolidated balance sheets. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of “Prepaid expenses and other current assets” account in the consolidated balance sheets to the extent of the recoverable amount.

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to owners of the Parent by the weighted-average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Contingencies

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

Events after the Reporting Period

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



4. Segment Information

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

Mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers.

Residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

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

Management, through the Executive Committee, monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

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

Inter-segment Transactions

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

Business Segment Data

	2018					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
(In Thousands)						
Revenue:						
External customers	₱59,188,798	₱36,519,311	₱3,504,224	₱4,868,232	₱-	₱104,080,565
Inter-segment	88,489	—	73,856	85	(162,430)	—
	₱59,277,287	₱36,519,311	₱3,578,080	₱4,868,317	(₱162,430)	₱104,080,565
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Segment results:						
Income before income tax	₱27,413,548	₱10,664,058	₱2,864,711	₱1,179,145	(₱155,287)	₱41,966,175
Provision for income tax	(6,816,792)	(1,448,652)	(510,274)	(279,328)	—	(9,055,046)
Net income	₱20,596,756	₱9,215,406	₱2,354,437	₱899,817	(₱155,287)	₱32,911,129
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Net income attributable to:						
Equity holders of the Parent	₱19,869,360	₱9,204,559	₱2,354,437	₱899,817	(₱155,287)	₱32,172,886
Non-controlling interests	727,396	10,847	—	—	—	738,243
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Segment assets	₱366,324,387	₱186,098,844	₱40,308,522	₱12,278,302	(₱875,737)	₱604,134,318
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Segment liabilities	₱212,781,100	₱108,996,681	₱3,163,510	₱990,802	(₱875,737)	₱325,056,356
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Other information:						
Capital expenditures	₱28,991,530	₱57,128,644	₱4,213,470	₱820,890	₱-	₱91,154,534
Depreciation and amortization	8,495,514	156,599	446,646	556,667	—	9,655,426



	2017					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	₱53,102,361	₱30,039,222	₱2,998,731	₱4,781,536	₱-	₱90,921,850
Inter-segment	93,279	—	61,767	15,472	(170,518)	—
	₱53,195,640	₱30,039,222	₱3,060,498	₱4,797,008	(₱170,518)	₱90,921,850
Segment results:						
Income before income tax	₱24,669,099	₱7,932,778	₱2,471,844	₱1,156,616	(₱282,476)	₱35,947,861
Provision for income tax	(6,237,757)	(876,195)	(443,757)	(265,689)	—	(7,823,398)
Net income	₱18,431,342	₱7,056,583	₱2,028,087	₱890,927	(₱282,476)	₱28,124,463
Net income attributable to:						
Equity holders of the Parent	₱17,883,603	₱7,053,725	₱2,028,087	₱890,927	(₱282,476)	₱27,573,866
Non-controlling interests	547,739	2,858	—	—	—	550,597
Segment assets	₱354,773,934	₱136,663,121	₱36,930,208	₱11,714,059	(₱1,663,724)	₱538,417,598
Segment liabilities	₱204,608,715	₱68,954,662	₱2,577,233	₱1,066,798	(₱1,663,724)	₱275,543,684
Other information:						
Capital expenditures	₱23,635,417	₱29,951,127	₱3,937,079	₱761,980	₱-	₱58,285,603
Depreciation and amortization	7,814,104	191,829	397,705	555,532	—	8,959,170
	2016					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	₱48,527,870	₱25,418,929	₱2,668,059	₱3,201,373	₱-	₱79,816,231
Inter-segment	72,562	—	68,879	16,321	(157,762)	—
	₱48,600,432	₱25,418,929	₱2,736,938	₱3,217,694	(₱157,762)	₱79,816,231
Segment results:						
Income before income tax	₱22,389,603	₱6,455,501	₱2,096,048	₱579,574	(₱532,049)	₱30,988,677
Provision for income tax	(5,473,398)	(655,333)	(347,946)	(144,376)	—	(6,621,053)
Net income	₱16,916,205	₱5,800,168	₱1,748,102	₱435,198	(₱532,049)	₱24,367,624
Net income attributable to:						
Equity holders of the Parent	₱16,356,409	₱5,798,053	₱1,748,102	₱435,198	(₱532,049)	₱23,805,713
Non-controlling interests	559,796	2,115	—	—	—	561,911
Segment assets	₱311,310,987	₱110,461,400	₱33,195,556	₱11,748,400	(₱1,156,211)	₱465,560,132
Segment liabilities	₱176,037,532	₱52,504,057	₱2,190,109	₱621,101	(₱1,156,211)	₱230,196,588
Other information:						
Capital expenditures	₱24,126,694	₱14,421,200	₱3,921,999	₱1,200,868	₱-	₱43,670,761
Depreciation and amortization	6,847,363	178,205	384,758	404,018	—	7,814,344

For the years ended December 31, 2018, 2017 and 2016, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

The Company disaggregates its revenue information in the same manner as it reports its segment information.

5. Business Combinations

Common Control Business Acquisitions

In January 2017, the Parent Company, through SM Lifestyle, Inc. (SMLI), acquired 90% of the outstanding common stock of Family Entertainment Center, Inc.. The companies involved are all under common control by the Sy Family thus the acquisition was considered as common control



business combinations and was accounted for using the pooling of interest method. Assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. No restatement of prior period was made as a result of the acquisitions due to immateriality. Had the Company restated its prior period financial statements, net income for the year ended December 31, 2016 would have decreased by ₡5 million.

In December 2016, the Parent Company through PCPMC acquired 90% of the outstanding shares of Shopping Center Management Corporation (SCMC). In September 2017, the Parent Company, through PCPMC, acquired the remaining 10% of the outstanding common stock of SCMC.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(In Thousands)	
Cash on hand and in banks (see Note 21)	₱3,887,600	₱2,170,090
Temporary investments (see Note 21)	₱34,878,867	42,201,444
	₱38,766,467	₱44,371,534

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

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Interest income earned from cash in banks and temporary investments amounted to ₱1,297 million, ₱723 million and ₱652 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

7. Financial Assets at FVOCI

This account consisted of investments in government and corporate bonds and listed common shares. These corporate bonds matured in 2017 and the listed common shares were disposed in 2018.

The movements in this account are as follows:

	2018	2017
	(In Thousands)	
At beginning of the year	₱731,076	₱918,702
Mark-to-market gain (loss) during the year	(3,860)	(13,690)
Disposals – net	(727,216)	(173,936)
At end of the year	₱—	₱731,076



In 2017, mark-to-market loss on changes in fair value of financial assets at FVTPL is included under “Others - net” account in the consolidated statement of income. In 2018, mark-to-market loss on changes in fair value of financial assets at FVOCI is recognized in other comprehensive income.

Interest income earned amounted to nil, ₦15 million and ₦18 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

Dividend income earned amounted to ₦18 million, ₦16 million and ₦15 million for the years ended December 31, 2018, 2017 and 2016, respectively.

8. Receivables and Contract Assets

This account consists of:

	2018	2017
	(In Thousands)	
Trade (billed and unbilled):		
Sale of real estate*	₦50,748,255	₦40,355,345
Rent:		
Third parties	5,544,270	5,162,398
Related parties (see Note 21)	3,024,750	2,716,458
Others (see Note 21)	124,530	136,580
Nontrade	252,196	145,151
Accrued interest (see Note 21)	134,801	135,831
Due from related parties (see Note 21)	–	130
Others (see Note 21)	2,666,855	2,246,437
	62,495,657	50,898,330
Less allowance for ECLs	1,034,040	1,053,582
	61,461,617	49,844,748
Less noncurrent portion of trade receivables from sale of real estate (see Note 16)	26,232,167	15,854,070
	₦35,229,450	₦33,990,678

*Includes unbilled revenue from sale of real estate amounting to ₦46,501 million as at December 31, 2018.

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

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

The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₦1,664 million and ₦4,924 million for the years ended December 31, 2018 and 2017, respectively (see Note 21).

The Company also has assigned receivables from real estate on a with recourse basis to local banks with outstanding balance of nil and ₦515 million as at December 31, 2018 and 2017, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rate of 4.50% to 6.50% in 2018 and 3.30% to 4.38% in 2017. The fair value of the assigned receivables and liability from assigned receivables approximates its cost.

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



Interest income earned from receivables totaled ₡75 million, ₡58 million and ₡51 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

There is no allowance for ECLs on unbilled revenue from sale of real estate. The movements in the allowance for ECLs related to receivables from sale of real estate and other receivables are as follows:

	2018	2017
	(In Thousands)	
At beginning of year	₱1,053,582	₱966,427
Provision (write-off) - net	(19,542)	87,155
At end of year	₱1,034,040	₱1,053,582

The aging analyses of receivables and unbilled revenue from sale of real estate as at December 31 are as follows:

	2018	2017
	(In Thousands)	
Neither past due nor impaired	₱55,907,949	₱42,158,909
Past due but not impaired:		
Less than 30 days	2,124,715	2,309,905
31–90 days	1,340,889	1,812,566
91–120 days	687,725	815,749
Over 120 days	1,400,339	2,747,619
Impaired	1,034,040	1,053,582
	₱62,495,657	₱50,898,330

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

The transaction price allocated to the remaining performance obligations as at December 31, 2018 totaling ₡12,929 million is expected to be recognized over the construction period ranging from one to five years.

9. Condominium and Residential Units for Sale

This account consists of:

	2018	2017
	(In Thousands)	
Condominium units for sale	₱7,939,941	₱8,566,351
Residential units and subdivision lots	148,198	166,948
	₱8,088,139	₱8,733,299



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

	2018	2017
	(In Thousands)	
At beginning of the year	₱8,566,351	₱7,505,117
Transfer from land and development (see Note 10)	1,550,984	5,380,827
Cost of real estate sold (see Note 23)	(2,177,394)	(4,319,593)
At end of the year	₱7,939,941	₱8,566,351

Condominium units for sale pertains to completed projects and are stated at cost as at December 31, 2018 and 2017.

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

	2018	2017
	(In Thousands)	
At beginning of the year	₱166,948	₱282,432
Transfer from land and development (see Note 10)	182,727	309,736
Cost of real estate sold (see Note 23)	(201,477)	(425,220)
At end of the year	₱148,198	₱166,948

Residential units and subdivision lots for sale are stated at cost as at December 31, 2018 and 2017.

10. Land and Development

This account consists of the following items stated at cost:

- Land and development, accounted for as real estate inventories, amounting to ₱29,487 million and ₱22,518 million as at December 31, 2018 and 2017, respectively.
- Land and development, accounted for as investment property, amounting to ₱49,844 million and ₱36,148 million as at December 31, 2018 and 2017, respectively.

The movements in “Land and development” accounted as real estate inventories as at December 31 follow:

	2018	2017
	(In Thousands)	
At beginning of the year	₱58,666,174	₱44,119,128
Reclassifications and transfers to land and development accounted as investment property (see Note 3)	(32,400,724)	(23,019,894)
Development cost incurred	20,320,803	16,792,977
Capitalized borrowing cost	4,047	38,240
Cost of real estate sold (see Note 23)	(15,390,337)	(10,406,991)
Transfer to condominium and residential units for sale (see Note 9)	(1,733,711)	(5,690,563)
Reclassification and others (see Note 14 and 16)	20,712	685,241
At end of the year	₱29,486,964	₱22,518,138



The average rates used to determine the amount of borrowing costs eligible for capitalization range from 4.60% to 5.10% in 2018 and from 3.52% to 4.57% in 2017.

Estimated cost to complete the projects amounted to ₡51,097 million and ₡53,324 million as at December 31, 2018 and 2017, respectively.

Contract fulfillment assets, included under land and development accounted for as real estate inventories, mainly pertain to unamortized portion of land cost totaling ₡1,232 million as at December 31, 2018.

The movements in “Land and development” accounted as investment property as at December 31 follow:

	2018	2017
	(In Thousands)	
Reclassifications and transfers from real estate inventories to investment property (see Note 3)	₱32,400,724	₱23,019,894
<u>Land acquisitions</u>	17,443,522	13,128,142
<u>At end of year</u>	₱49,844,246	₱36,148,036

11. Equity Instruments at FVOCI

This account consists of investments in:

	2018	2017
	(In Thousands)	
Shares of stock:		
Listed (see Note 21)	₱23,508,022	₱31,090,564
Unlisted	24,231	15,581
	23,532,253	31,106,145
Less noncurrent portion	22,892,937	30,464,845
	₱639,316	₱641,300

- Listed shares of stock pertain to investments in publicly-listed companies.
- Unlisted shares of stock pertain to stocks of private corporations.

Dividend income from investments at FVOCI amounted to ₡394 million, ₡354 million and ₡327 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 21).

The movements in the “Net fair value changes of equity instruments at FVOCI” account are as follows:

	2018	2017
	(In Thousands)	
At beginning of the year	₱25,489,705	₱17,502,410
Unrealized gain (loss) due to changes in fair value –		
net of transfers	(6,405,108)	7,987,295
<u>At end of the year</u>	₱19,084,597	₱25,489,705



12. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
	(In Thousands)	
Advances and deposits	₱6,108,850	₱6,322,339
Input and creditable withholding taxes	5,658,232	5,219,909
Prepaid taxes and other prepayments	2,845,331	2,619,209
Supplies and inventories	362,833	370,337
Cash in escrow and others (see Notes 21 and 28)	171,783	58,221
	₱15,147,029	₱14,590,015

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.
- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.
- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.
- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account.

Interest income earned from the cash in escrow amounted to ₱2 million, ₱2 million and ₱3 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

13. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
	(In Thousands)						
Cost							
Balance at December 31, 2016	₱218,892	₱1,644,522	₱197,959	₱351,470	₱655,387	₱—	₱3,068,230
Additions	1,323	95,147	21,676	2,808	26,824	312	148,090
Disposals/retirements	—	(174,933)	(280)	(1,004)	—	—	(176,217)
Reclassifications	—	208,684	67,958	(286,072)	9,430	—	—
Balance at December 31, 2017	220,215	1,773,420	287,313	67,202	691,641	312	3,040,103
Additions	22,629	45,439	23,516	18,723	14,491	1,557	126,355
Disposals/retirements	—	—	—	—	(679)	—	(679)
Reclassifications	6,480	3,017	3,922	4,888	(18,289)	(312)	(294)
Balance at December 31, 2018	₱249,324	₱1,821,876	₱314,751	₱90,813	₱687,164	₱1,557	₱3,165,485

(Forward)



	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
<i>(In Thousands)</i>							
Accumulated Depreciation and Amortization							
Balance at December 31, 2016	₱238	₱712,107	₱140,902	₱160,156	₱435,226	₱-	₱1,448,629
Depreciation and amortization (see Note 23)	177	148,281	29,200	5,264	75,515	–	258,437
Disposals/retirements	–	(159,116)	(270)	(1,004)	–	–	(160,390)
Reclassifications	–	43,329	45,545	(105,406)	16,532	–	–
Balance at December 31, 2017	415	744,601	215,377	59,010	527,273	–	1,546,676
Depreciation and amortization (see Note 23)	792	113,826	31,371	19,112	35,284	–	200,385
Disposals/retirements	–	–	–	–	(679)	–	(679)
Reclassifications	6,480	6,268	3,327	–	(16,083)	–	(8)
Balance at December 31, 2018	₱7,687	₱864,695	₱250,075	₱78,122	₱545,795	₱-	₱1,746,374
Net Book Value							
As at December 31, 2017	₱219,800	₱1,028,819	₱71,936	₱8,192	₱164,368	₱312	₱1,493,427
As at December 31, 2018	241,637	957,181	64,676	12,691	141,369	1,557	1,419,111

14. Investment Properties

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Cost					
Balance as at December 31, 2016	₱63,162,938	₱189,593,066	₱32,991,894	₱24,438,795	₱310,186,693
Effect of common control business combination (see Note 5)	–	1,047	929	–	1,976
Additions	3,766,470	4,272,682	1,769,895	18,407,346	28,216,393
Reclassifications (see Note 10)	(2,926,085)	11,289,884	1,166,605	(9,879,449)	(349,045)
Translation adjustment	75,699	2,459,685	193,841	215,944	2,945,169
Disposals	(11,538)	(162,144)	(45,913)	–	(219,595)
Balance as at December 31, 2017	64,067,484	207,454,220	36,077,251	33,182,636	340,781,591
Additions	4,331,600	8,480,962	3,016,764	14,318,076	30,147,402
Reclassifications	(1,450,592)	9,070,215	1,112,147	(8,731,468)	302
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,314)	(24,124)	(565,732)
Balance as at December 31, 2018	₱66,877,711	₱224,775,902	₱39,780,170	₱38,740,171	₱370,173,954
Accumulated Depreciation, and Amortization					
Balance as at December 31, 2016	₱1,700,431	₱37,904,008	₱19,083,190	₱-	₱58,687,629
Effect of common control business combination (see Note 5)	–	527	769	–	1,296
Depreciation and amortization (see Note 23)	194,050	5,845,746	2,660,937	–	8,700,733
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(44,868)	–	(150,910)
Balance as at December 31, 2017	1,920,473	43,981,769	21,795,203	–	67,697,445
Depreciation and amortization (see Note 23)	212,082	6,182,725	3,060,234	–	9,455,041
Reclassifications	(26,656)	179,884	(153,212)	–	16
Translation adjustment	(9,243)	(68,853)	(14,860)	–	(92,956)
Disposals	(25,807)	(61,055)	(373,346)	–	(460,208)
Balance as at December 31, 2018	₱2,070,849	₱50,214,470	₱24,314,019	₱-	₱76,599,338
Net Book Value					
As at December 31, 2017	₱62,147,011	₱163,472,451	₱14,282,048	₱33,182,636	₱273,084,146
As at December 31, 2018	64,806,862	174,561,432	15,466,151	38,740,171	293,574,616

Consolidated rent income from investment properties amounted to ₱57,163 million, ₱51,406 million and ₱45,693 million for the years ended December 31, 2018, 2017 and 2016, respectively.



Consolidated costs and expenses from investment properties, which generate income, amounted to ₦31,684 million, ₦29,370 million and ₦26,295 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company acquired several parcels of land through acquisition of certain single-asset entities totaling ₦937 million in 2017 (see Note 2).

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₦38,740 million and ₦33,183 million as at December 31, 2018 and 2017, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₦47,100 million and ₦40,511 million as at December 31, 2018 and 2017, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₦15,738 million and ₦14,571 million as at December 31, 2018 and 2017, respectively.

Interest capitalized to the construction of investment properties amounted to ₦2,681 million, ₦2,299 million and ₦2,921 million for the years ended December 31, 2018, 2017 and 2016, respectively. Capitalization rates used range from 2.35% to 5.04%, from 2.35% to 4.77%, and from 2.35% to 4.82% for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

The Company's management believes that there were no conditions present in 2018 that would significantly reduce the fair value of the investment properties from that determined on December 31, 2015.

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

15. Investments in Associates and Joint Ventures

Investments in Associates

This pertains mainly to investments in the following companies:

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



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

As at December 31, 2018, OHI's total assets, total liabilities and total equity amounted to ₱34,563 million, ₱27,442 million and ₱7,121 million, respectively. The carrying value of investment in OHI amounted to ₱16,920 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱15,259 million.

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

The share in profit of OHI amounted to ₱727 million, ₱589 million and ₱144 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

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

The carrying value of investment in FHREC amounted to ₱1,340 million and ₱1,287 million as at December 31, 2018 and 2017, respectively. This consists of the acquisition cost amounting to ₱292 million and ₱294 million as at December 31, 2018 and 2017, respectively, and cumulative equity in net earnings amounting to ₱1,048 million and ₱993 million as at December 31, 2018 and 2017, respectively. The share in profit amounted to ₱61 million, ₱47 million and ₱60 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

Investment in Joint Ventures

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 28 malls across Metro Manila and Luzon. The investment in Waltermart is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.



The aggregate carrying values of investment in Waltermart amounted to ₱6,304 million and ₱5,977 million as at December 31, 2018 and 2017, respectively. These consist of the acquisition costs totaling ₱5,145 million and cumulative equity in net earnings totaling ₱1,159 million and ₱832 million as at December 31, 2018 and 2017, respectively. The share in profit amounted to ₱326 million, ₱204 million and ₱242 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

In June 2016, SMDC entered into a shareholder's agreement through ST 6747 Resources Corporation (STRC) for the development of a high-end luxury residential project. Under the provisions of the agreement, each party shall have 50% ownership interest and is required to maintain each party's equal equity interest in STRC. The carrying value of investment in STRC amounted to ₱1,500 million and ₱1,000 million as at December 31, 2018 and 2017, respectively. The investment in STRC is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control. The project was launched in 2019.

In 2016, PSC entered into a joint venture agreement through Metro Rapid Transit Services, Inc. (MRTSI) for the establishment and operation of a high quality public transport system. The investment in MRTSI is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control. The carrying values of investment in MRTSI amounted to ₱47 million and ₱31 million as at December 31, 2018 and 2017, respectively. These consist of the acquisition costs totaling ₱60 million and ₱51 million and cumulative equity in net loss totaling ₱13 million and ₱20 million as at December 31, 2018 and 2017, respectively. There is no share in other comprehensive income for the years ended December 31, 2018 and 2017.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2018 and 2017.

16. Other Noncurrent Assets

This account consists of:

	2018 (In Thousands)	2017 (In Thousands)
Bonds and deposits	₱39,594,024	₱9,518,290
Receivables from sale of real estate - net of current portion* (see Note 8)	26,232,167	15,854,070
Land use rights (see Note 10)	10,403,350	10,630,926
Time deposits (see Notes 21 and 29)	2,392,622	3,800,809
Deferred input tax	1,171,185	1,399,343
Others (see Note 25)	1,116,712	1,220,442
	₱80,910,060	₱42,423,880

*Pertains to noncurrent portion of unbilled revenue from sale of real estate (see Note 8).

Bonds and Deposits

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



Land use rights

Included under “Land use rights” account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties were not part of the consideration paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

Portions of land use rights with carrying amount of ₱319 million and ₱328 million as at December 31, 2018 and 2017, respectively, are mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Time Deposits

Time deposits with various maturities within one year were used as collateral for use of credit lines obtained by the Company from related party banks. Interest income earned amounted to ₱42 million, ₱46 million and ₱50 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

17. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱39 million and ₱744 million as at December 31, 2018 and 2017, respectively, with due dates of less than one year. These loans bear interest rates of 6.00% in 2018 and 3.00% to 3.50% in 2017.

Interest expense incurred from loans payable amounted to ₱21 million, ₱31 million and ₱22 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Trade:		
Third parties	₱25,987,678	₱21,997,141
Related parties (see Note 21)	282,337	297,093
Tenants' and customers' deposits* (see Note 27)	31,375,908	26,584,557
Liability for purchased land	14,019,013	6,423,989
Accrued operating expenses:		
Third parties	9,338,262	8,566,372
Related parties (see Note 21)	455,954	593,097
Deferred output VAT	3,087,528	2,345,506
Accrued interest (see Note 21)	1,881,165	1,355,403

(Forward)



	2018	2017
	(In Thousands)	
Payable to government agencies	₱1,170,561	₱1,001,818
Nontrade	286,841	603,048
Others	1,458,027	1,921,682
	89,343,274	71,689,706
Less noncurrent portion	27,576,188	20,605,624
	₱61,767,086	₱51,084,082

* Includes unearned revenue from sale of real estate amounting to ₱4,195 million as at December 31, 2018.

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial period. Accrued operating expenses - third parties consist of:

	2018	2017
	(In Thousands)	
Utilities	₱4,484,483	₱4,530,529
Marketing and advertising	1,092,560	606,729
Payable to contractors and others	3,761,219	3,429,114
	₱9,338,262	₱8,566,372

- Tenants' deposits refers to security deposits received from various tenants upon inception of the respective lease contracts on the Company's investment properties. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue.
- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.



19. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance 2018 (In Thousands)	2017
Parent Company						
Philippine peso-denominated loans	January 12, 2012 – March 1, 2018	March 1, 2020 – July 26, 2026	Floating PDST-R2 + margin; 4.20%–6.74%	Unsecured	₱112,323,200	₱92,923,000
U.S. dollar-denominated loans	February 14, 2013 - July 30, 2018	January 29, 2018 – June 14, 2023	LIBOR + spread; semi-annual	Unsecured	5,783,800	19,972,000
Subsidiaries						
Philippine peso-denominated loans	June 3, 2013 - September 21, 2018	August 28, 2018 – June 18, 2025	Floating PDST-R2 + margin; 3.84%–7.55%	Unsecured	66,490,939	43,054,253
U.S. dollar-denominated loans	April 23, 2014 - October 16, 2017	April 14, 2019 - June 30, 2022	LIBOR + spread; semi-annual	Unsecured	36,191,602	34,415,944
China yuan renminbi-denominated loans	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10%; quarterly	Secured*	3,118,514	3,445,302
					223,908,055	193,810,499
Less debt issue cost					1,136,169	956,980
					222,771,886	192,853,519
Less current portion					25,089,624	25,344,035
					₱197,682,262	₱167,509,484

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Treasury Reference Rates – PM

CBC – Central Bank of China

*Secured by portions of investment properties and land use rights located in China.



Parent Company

Philippine Peso-denominated Loans

This includes the following:

- A ₱20 billion fixed rate bonds issued in March 2018. The issue consists of the five-year or Series H Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 5.6630% per annum due in March 2023 and seven-year or Series I Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 6.0804% per annum due in March 2025.
- A ₱20 billion fixed rate bonds issued in May 2017. The issue consists of the seven-year or Series G Bonds amounting to ₱20 billion with a fixed interest rate equivalent to 5.1683% per annum due in May 2024.
- A ₱10 billion fixed rate bonds issued in July 2016. The issue consists of the ten-year or Series F Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 4.2005% per annum due in July 2026.
- A ₱20 billion fixed rate bonds issued in November 2015. The issue consists of the five-year and three months or Series D Bonds amounting to ₱17,969 million with a fixed interest rate equivalent to 4.5095% per annum due in February 2021 and ten-year or Series E Bonds amounting to ₱2,031 million with a fixed interest rate equivalent to 4.7990% per annum due in November 2025.
- A ₱20 billion fixed rate bonds issued in September 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036 million with a fixed interest rate equivalent to 5.1000% per annum due in March 2020, seven-year or Series B Bonds amounting to ₱2,362 million with a fixed interest rate equivalent to 5.2006% per annum due in September 2021, and ten-year or Series C Bonds amounting to ₱2,602 million with a fixed interest rate equivalent to 5.7417% per annum due in September 2024.

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

This five-year term loans in US dollar denomination consisting of the following matured during the period:

- A US\$300 million syndicated loan obtained on various dates in 2013. The loans bear an interest rate based on LIBOR plus spread and matured in March 2018. The portion of the loan amounting to US\$150 million is hedged against interest rate risk and foreign exchange risk.
- A US\$200 million syndicated loan obtained in January 2013. The loan bears an interest rate based on LIBOR plus spread, matured in January 2018. This loan is hedged against interest rate and foreign exchange risks.

U.S. Dollar-denominated Loans

- This includes a US\$110 million syndicated loan obtained in July 2018. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity in June 2023. This loan is hedged against foreign exchange risks (see Notes 28 and 29).



Subsidiaries

U.S. Dollar-denominated Loans

- This includes a US\$270 million syndicated loan obtained in March 2016. The loans bear an interest rate based on LIBOR plus spread, with maturity in January 2021. This loan is hedged against interest rate risks (see Notes 28 and 29).

China Yuan Renminbi-denominated Loans

- This includes a ¥159 million obtained in July 2015. The loan is payable in quarterly installments until June 2020. The loan carries an interest rate of 4.75%. Portions of investment properties and land use rights located in China with total carrying value of ₢1,886 million and ₢1,898 million as at December 31, 2018 and 2017, respectively, are mortgaged as collaterals to secure the loan (see Notes 14 and 16).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.75:0.25 and interest coverage ratio of not less than 2.50:1.00 and material change in ownership or control. As at December 31, 2018 and 2017, the Company is in compliance with the terms of its loan covenants.

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

Interest expense incurred from long-term debt amounted to ₢7,451 million, ₢5,251 million and ₢4,135 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

Debt Issue Cost

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

	2018	2017
	(In Thousands)	
Balance at beginning of the year	₱956,980	₱1,041,797
Additions	549,560	297,730
Amortization	(370,371)	(382,547)
Balance at end of the year	₱1,136,169	₱956,980

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

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
	(In Thousands)		
Within 1 year	₱25,089,624	(₱316,070)	₱24,773,554
More than 1 year to 5 years	144,120,691	(744,576)	143,376,115
More than 5 years	54,697,740	(75,523)	54,622,217
	₱223,908,055	(₱1,136,169)	₱222,771,886



20. Equity

Capital Stock

As at December 31, 2018 and 2017, the Company has an authorized capital stock of 40,000 million with a par value of ₦1 a share, of which 33,166 million shares were issued.

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

	2018	2017
	(In Thousands)	
Balance at beginning of the year	28,837,814	28,833,608
Reissuance of treasury shares	18,598	4,206
Balance at end of the year	28,856,412	28,837,814

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

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

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,407 as at December 31, 2018.

Additional Paid-in Capital - Net

Following represents the nature of the consolidated “Additional paid-in capital - net”:

	2018	2017
	(In Thousands)	
Paid-in subscriptions in excess of par value	₦33,549,808	₦33,266,992
Net equity adjustments from common control business combinations (see Note 5)	9,309,730	9,309,730
Arising from acquisition of non-controlling interests	(2,906,320)	(2,914,554)
As presented in the consolidated balance sheets	₦39,953,218	₦39,662,168

Retained Earnings

In 2018, the BOD approved the declaration of cash dividend of ₦0.35 per share or ₦10,108 million to stockholders of record as of May 9, 2018, ₦9 million of which was received by SMDC. This was paid on May 23, 2018. In 2017, the BOD approved the declaration of cash dividend of ₦0.26 per share or ₦7,509 million to stockholders of record as of May 12, 2017, ₦12 million of which was received by SMDC. This was paid on May 25, 2017. In 2016, the BOD approved the declaration of cash dividend of ₦0.23 per share or ₦6,642 million to stockholders of record as of April 29, 2016, ₦10 million of which was received by SMDC. This was paid on May 12, 2016



As at December 31, 2018 and 2017, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₡42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2019, the Company expects to incur capital expenditures of approximately ₡80 billion.

The retained earnings account is restricted for the payment of dividends to the extent of ₡75,721 million and ₡65,156 million as at December 31, 2018 and 2017, respectively, representing the cost of shares held in treasury (₱2,985 million and ₱3,287 million as at December 31, 2018 and 2017, respectively) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₡72,736 million and ₡61,869 million as at December 31, 2018 and 2017, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock

As at December 31, 2018 and 2017, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₡2,985 million and ₱3,287 million, respectively. The movement of the treasury stock of the Company are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	4,328,486	4,332,692
Sale of treasury shares	(18,598)	(4,206)
Balance at end of year	4,309,888	4,328,486

21. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2018 and 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash.



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

	Amount of Transactions			Outstanding Amount [Asset (Liability)]		Terms	Conditions
	2018	2017	2016	2018	2017		
	(In Thousands)						
Ultimate Parent							
Rent income	₱45,391	₱55,459	₱47,870	₱-	₱-		
Rent receivable	-	-	-	4,967	5,844	Noninterest-bearing	Unsecured; not impaired
Management fee income	2,885	-	-	-	-		
Service income	57,600	48,000	31,368	-	-		
Service fee receivable	-	-	-	14,000	4,497	Noninterest-bearing	Unsecured; not impaired
Rent expense	105,583	102,231	83,335	-	-		
Accrued rent payable	-	-	-	(808)	(2,875)	Noninterest-bearing	Unsecured
Trade payable	6,539	5,952	-	(16,805)	(10,266)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	-	-	-	134,050	144,643	Noninterest-bearing	Unsecured; not impaired
Dividend income	1,198	1,135	1,035	-	-		
Banking and Retail Group							
Cash and cash equivalents	160,983,099	171,812,742	339,752,362	24,890,200	32,118,321	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	-	122,660	-	-	731,076	Noninterest-bearing	Unsecured; not impaired
Rent income	16,079,276	14,558,585	13,600,314	-	-		
Rent receivable	-	-	-	3,006,209	2,656,892	Noninterest-bearing	Unsecured; not impaired
Service income	28,559	30,023	36,944	-	-		
Management fee income	999	5,979	4,164	-	-		
Management fee receivable	-	-	-	14,469	23,933	Noninterest-bearing	Unsecured; not impaired
Deferred rent income	-	-	-	(8,950)	(23,548)	Noninterest bearing	Unsecured
Interest income	374,432	297,719	164,128	-	-		
Accrued interest receivable	-	-	-	29,963	51,829	Noninterest-bearing	Unsecured; not impaired
Receivable financed	1,663,822	4,923,847	3,297,217	-	-	Without recourse	Unsecured
Time deposits	-	-	-	2,382,597	3,709,270	Interest-bearing	Unsecured
Loans payable and long-term debt	9,205,385	386	1,275,667	(9,824,904)	(907,953)	Interest-bearing	Combination of secured and unsecured
Interest expense	252,296	139,292	21,923	-	-		
Accrued interest payable	-	-	-	(3,878)	(518)	Noninterest-bearing	Unsecured
Rent expense	634	1,004	1,203	-	-		
Trade payable	38,510	47,803	46,583	(138,782)	(100,272)	Noninterest-bearing	Unsecured
Management fee expense	11,217	3,093	2,748	-	-		
Accrued management fee	-	-	-	-	(17,030)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	-	-	-	15,011,058	18,740,177	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	157,719	-	-	157,719	50,881	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	225,357	212,740	187,908	-	-		
Other Related Parties							
Rent income	178,572	119,238	₱62,743	-	-		
Rent receivable	-	-	-	13,574	53,722	Noninterest-bearing	Unsecured; not impaired
Service income	77,579	92,943	72,387	-	-		
Service fee receivable	-	-	-	62	-		
Management fee income	6,859	2,799	3,532	-	-		
Management fee receivable	-	-	-	7,993	7,939		
Rent expense	8,311	5,735	5,164	-	-		
Accrued expenses	-	-	-	(455,146)	(573,192)	Noninterest-bearing	Unsecured
Trade payable	-	176,761	-	(126,750)	(186,555)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	-	-	-	-	2,853,947	Noninterest-bearing	Unsecured; not impaired
Dividend income	88,266	87,885	69,878	-	-		



Due from related parties amounted to nil and ₱0.13 million as at December 31, 2018 and 2017, respectively, which are noninterest-bearing and are not impaired. The amount of transactions with related parties amounted to nil, ₱0.02 million and nil for the years ended December 31, 2018, 2017 and 2016, respectively.

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent

The Company has existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Service Fees

The Company provides manpower and other services to affiliates.

Dividend Income

The Company's equity instruments at FVOCI of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans

The Company has certain bank accounts and cash placements that are maintained with BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates). Such accounts earn interest based on prevailing market interest rates (see Notes 6 and 7).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

The Company also entered into financing arrangements with BDO and China Bank. There were no assigned receivables on a with recourse basis to BDO and China Bank in 2018 and 2017 (see Note 8).

Others

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

Compensation of Key Management Personnel

The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2018, 2017 and 2016 consist of short-term employee benefits amounting to ₱1,104 million, ₱930 million and ₱712 million, respectively, and post-employment benefits (pension benefits) amounting to ₱165 million, ₱144 million and ₱98 million, respectively.



22. Other Revenue

Details of other revenue follows:

	2018	2017	2016
	(In Thousands)		
Food and beverages	₱1,668,705	₱1,620,269	₱1,158,033
Amusement and others	911,580	851,264	844,394
Net merchandise sales	902,730	740,356	764,207
Bowling and ice skating fees	253,911	219,378	253,229
Advertising income	214,473	202,000	236,529
Others	1,875,384	1,680,875	1,200,073
	₱5,826,783	₱5,314,142	₱4,456,465

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

23. Costs and Expenses

This account consists of:

	2018	2017	2016
	(In Thousands)		
Cost of real estate sold (see Notes 9 and 10)	₱17,769,208	₱15,151,804	₱13,117,141
Administrative (see Notes 21 and 25)	11,329,111	10,860,321	9,607,265
Depreciation and amortization (see Notes 13 and 14)	9,655,426	8,959,170	7,814,344
Marketing and selling	5,530,794	4,788,603	4,644,125
Business taxes and licenses	4,790,129	4,406,480	3,803,376
Film rentals	2,829,629	2,600,839	2,567,038
Rent (see Notes 21 and 27)	1,729,671	1,597,970	1,450,981
Insurance	518,168	475,732	463,462
Others	1,601,198	1,452,139	1,083,443
	₱55,753,334	₱50,293,058	₱44,551,175

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

24. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2018	2017	2016
	(In Thousands)		
Interest income on:			
Cash and cash equivalents (see Note 6)	₱1,297,364	₱723,235	₱651,506
Time deposits (see Note 16)	42,160	46,424	50,130
Financial asset at FVTPL (see Note 7)	—	14,891	17,655
Others (see Notes 8 and 12)	76,924	59,288	53,955
	₱1,416,448	₱843,838	₱773,246

(Forward)



	2018	2017	2016
	(In Thousands)		
Interest expense on:			
Long-term debt (see Note 19)	₱7,451,159	₱5,251,144	₱4,134,944
Loans payable (see Note 17)	21,054	30,737	22,415
Others	67,832	192,541	252,255
	₱7,540,045	₱5,474,422	₱4,409,614

25. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2018.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2018	2017	2016
	(In Thousands)		
Current service cost	₱296,007	₱286,297	₱175,449
Net interest income	(13,279)	(32,062)	(20,563)
	₱282,728	₱254,235	₱154,886

Net Pension Asset (included under "Other noncurrent assets" account)

	2018	2017
	(In Thousands)	
Fair value of plan assets	₱1,427,448	₱1,822,755
Defined benefit obligation	(1,339,655)	(1,619,868)
Effect of asset ceiling limit	(15,148)	(28,759)
Net pension asset	₱72,645	₱174,128

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2018	2017
	(In Thousands)	
Defined benefit obligation	₱1,160,163	₱544,951
Fair value of plan assets	(1,023,976)	(454,472)
Net pension liability	₱136,187	₱90,479



The changes in the present value of the defined benefit obligation are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of the year	₱2,164,819	₱1,489,462
Effect of common control business combination (see Note 5)	—	17,133
Actuarial loss (gain):		
Experience adjustments	433,932	284,102
Changes in financial assumptions	(495,054)	81,882
Changes in demographic assumptions	14,117	(35,627)
Current service cost	296,007	286,297
Interest cost	125,370	92,538
Benefits paid	(57,447)	(49,745)
Transfer to (from) the plan	10,109	(1,223)
Other adjustments	7,965	—
Balance at end of the year	₱2,499,818	₱2,164,819

The above present value of defined benefit obligation are broken down as follows:

	2018	2017
	<i>(In Thousands)</i>	
Related to pension asset	₱1,339,655	₱1,619,868
Related to pension liability	1,160,163	544,951
	₱2,499,818	₱2,164,819

The changes in the fair value of plan assets are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱2,277,227	₱1,985,776
Effect of common control business combination (see Note 5)	—	16,605
Contributions	356,040	260,810
Interest income	140,309	129,158
Benefits paid from assets	(57,447)	(47,745)
Transfer to (from) the plan and others	10,109	(1,223)
Remeasurement loss	(274,814)	(66,154)
Balance at end of year	₱2,451,424	₱2,277,227

The changes in the fair value of plan assets are broken down as follows:

	2018	2017
	<i>(In Thousands)</i>	
Related to pension asset	₱1,427,448	₱1,822,755
Related to pension liability	1,023,976	454,472
	₱2,451,424	₱2,277,227



The changes in the effect of asset ceiling limit are as follows:

	2018	2017
	(In Thousands)	
Asset ceiling limit at beginning of year	₱28,759	₱74,352
Remeasurement gain	(15,271)	(50,151)
Interest cost	1,660	4,558
	₱15,148	₱28,759

The carrying amounts and fair values of the plan assets as at December 31, 2018 and 2017 are as follows:

	2018	2017	
	Carrying Amount	Fair Value	Carrying Amount
	(In Thousands)		
Cash and cash equivalents	₱203,807	₱203,807	₱151,181
Investments in:			
Common trust funds	799,380	799,380	825,023
Government securities	715,089	715,089	536,290
Debt and other securities	662,123	662,123	629,506
Equity securities	56,500	56,500	84,685
Other financial assets	14,525	14,525	50,542
	₱2,451,424	₱2,451,424	₱2,277,227
			₱2,277,227

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 3.09% to 8.75% and have maturities ranging from 2019 to 2030;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 3.80% to 7.51% and have maturities ranging from 2019 to 2025;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.



The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the years ended December 31:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	₱203,807	₱151,181
Interest income from cash and cash equivalents	10,328	3,983
Investments in common trust funds	799,380	825,023
Loss from investments in common trust funds	(3,858)	(28,901)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2018	2017	2016
Discount rate	7.4%–7.8%	5.7%–5.8%	5.4%–6.1%
Future salary increases	3.0%–9.0%	4.0%–10.0%	3.0%–9.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2018	2017	2016
	(In Thousands)		
Actuarial loss (gain)	₱227,809	₱396,511	(₱119,406)
Remeasurement loss (gain) – excluding amounts recognized in net interest cost	(15,271)	(50,151)	11,919
	₱212,538	₱346,360	(₱107,487)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018 and 2017, respectively, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
	(In Thousands)	
2018		
Discount rates	50	(₱101,386)
	(50)	109,328
Future salary increases	100	221,857
	(100)	(194,777)
2017		
Discount rates	50	(₱94,965)
	(50)	103,147
Future salary increases	100	183,672
	(100)	(159,152)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.



Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018 and 2017, respectively:

Year 2018	Amount
(In Thousands)	
2019	₱390,127
2020	233,043
2021–2022	671,628
2023–2028	2,219,158

Year 2017	Amount
(In Thousands)	
2018	₱278,502
2019	171,403
2020–2021	522,821
2022–2027	1,611,990

The Company expects to contribute about ₱365 million to its defined benefit pension plan in 2019.

The weighted average duration of the defined benefit obligation is 9.7 years and 9.8 years as of December 31, 2018 and 2017, respectively.

26. Income Tax

The details of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
NOLCO	₱508,314	₱560,589
Excess of fair value over cost of investment properties and others	364,249	380,872
Unrealized foreign exchange losses	231,560	230,856
Provision for ECLs on receivables	105,090	101,858
Unamortized past service cost	17,443	13,662
Deferred rent income	4,073	18,479
MCIT	3,394	8,370
Others	303,857	255,884
	1,537,980	1,570,570
Deferred tax liabilities:		
Unrealized gross profit on sale of real estate	(2,000,677)	(1,339,441)
Undepreciated capitalized interest, unrealized foreign exchange gains and others	(1,791,729)	(1,817,431)
Pension asset	(40,201)	(34,041)
Others	(149,204)	(143,337)
	(3,981,811)	(3,334,250)
Net deferred tax liabilities	(₱2,443,831)	(₱1,763,680)



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

	2018	2017
	<i>(In Thousands)</i>	
Deferred tax assets - net	₱1,083,670	₱1,114,291
Deferred tax liabilities - net	(3,527,501)	(2,877,971)
	(₱2,443,831)	(₱1,763,680)

As at December 31, 2018 and 2017, unrecognized deferred tax assets amounted to ₱430 million and ₱69 million, respectively, bulk of which pertains to NOLCO.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2018	2017	2016
Statutory tax rate	30.0%	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	(0.9)	(0.9)	(0.4)
Availment of income tax holiday	(4.0)	(4.4)	(3.4)
Interest income subjected to final tax and dividend income exempt from income tax	(1.2)	(1.0)	(0.7)
Nondeductible expenses and others	(2.3)	(1.9)	(4.1)
Effective tax rates	21.6%	21.8%	21.4%

27. Lease Agreements

Company as Lessor

The Company's lease agreements with its mall tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Also, the Company's lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.



The Company's future minimum rent receivables for the noncancelable portions of the operating commercial property leases follow:

	2018	2017
	<i>(In Millions)</i>	
Within one year	₱3,838	₱2,976
After one year but not more than five years	9,944	6,540
After more than five years	3,259	3,672
	₱17,041	₱13,188

Consolidated rent income amounted to ₱57,163 million, ₱51,406 million and ₱45,693 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Company as Lessee

The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancelable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

The Company's future minimum lease payables under the noncancelable operating leases as at December 31 are as follows:

	2018	2017
	<i>(In Millions)</i>	
Within one year	₱999	₱983
After one year but not more than five years	3,623	4,080
After five years	26,447	26,964
Balance at end of year	₱31,069	₱32,027

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,730 million, ₱1,598 million and ₱1,451 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 23).

28. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, financial assets at FVTPL, accrued interest and other receivables, equity instruments at FVOCI and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).



The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2018 and 2017, after taking into account the effect of interest rate swaps, approximately 80% and 83%, respectively, of its long-term borrowings, are at a fixed rate of interest (see Note 29).



Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2018 and 2017:

		2018						
	Interest Rate	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years	Total	
Fixed Rate								
Philippine peso-denominated corporate notes	5.25%-5.88%	₱8,700	₱5,708,520	₱499,460	₱2,460	₱2,437,860	₱8,657,000	
Philippine peso-denominated notes	3.84%-7.55%	₱6,606,800	₱906,800	₱5,811,800	₱11,908,800	₱17,500,000	42,734,200	
Philippine peso-denominated retail bonds	4.20%-6.08%	₱-	₱15,035,740	₱20,331,520	₱-	₱54,632,740	90,000,000	
Other bank loans	4.28%-6.25%	₱388,939	₱250,000	₱-	₱-	₱-	638,939	
Floating Rate								
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$300,000	\$-	\$270,000	\$100,000	\$110,000	41,975,402	
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱5,160,000	₱-	5,460,000	
Philippine peso-denominated notes	PDST-R2+margin%	₱1,325,000	₱1,725,000	₱3,225,000	₱2,925,000	₱22,124,000	31,324,000	
China yuan renminbi-denominated five-year loan	CBC rate less 10%	¥40,857	¥19,382	¥-	¥347,900	¥-	3,118,514	
							223,908,055	
Less debt issue cost							1,136,169	
							222,771,886	

		2017						
	Interest Rate	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years	Total	
Fixed Rate								
Philippine peso-denominated corporate notes	5.25%-5.88%	₱8,700	₱8,700	₱5,708,520	₱499,460	₱2,440,320	₱8,665,700	
Philippine peso-denominated notes	3.84%-6.74%	₱4,606,800	₱6,606,800	₱906,800	₱5,106,800	₱19,118,800	36,346,000	
Philippine peso-denominated retail bonds	4.20%-5.74%	₱-	₱-	₱15,035,740	₱20,331,520	₱34,632,740	70,000,000	
Other bank loans	3.13%-5.00%	₱25,093	₱49,907	₱375,000	₱263,553	₱250,000	963,553	
Floating Rate								
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$400,000	\$300,000	\$-	\$270,000	\$100,000	54,387,944	
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱100,000	₱5,160,000	5,560,000	
Philippine peso-denominated notes	PDST-R2+margin%	₱318,000	₱1,118,000	₱1,218,000	₱118,000	₱11,670,000	14,442,000	
China yuan renminbi-denominated five-year loan	CBC rate less 10%	¥40,847	¥40,857	¥19,382	¥-	¥347,900	3,445,302	
							193,810,499	
Less debt issue cost							956,980	
							192,853,519	

LIBOR - London Interbank Offered Rate

PDST-R2 - Philippine Treasury Reference Rates - PM

CBC - Central Bank of China



Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax <i>(In Thousands)</i>
2018	100	(₱67,204)
	50	(33,602)
	(100)	67,204
	(50)	33,602
2017	100	(₱73,686)
	50	(36,843)
	(100)	73,686
	(50)	36,843

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's policy is to manage its foreign currency risk mainly from its debt issuances which are denominated in U.S. dollars and subsequently remitted to China to fund its capital expenditure requirements by entering into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets amounted to US\$43 million (₱2,252 million) as at December 31, 2018 and US\$97 million (₱4,864 million) as at December 31, 2017. The Company's foreign currency-denominated monetary liabilities amounted to nil as at December 31, 2018 and US\$300 million (₱1,954 million) as at December 31, 2017.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱6.88 to US\$1.00 and ₱6.51 to US\$1.00, the China Yuan Renminbi to U.S. dollar exchange rate as at December 31, 2018 and 2017, respectively and ₱52.58 to US\$1.00 and ₱49.93 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2018 and 2017, respectively.



Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate and U.S. dollar to China yuan renminbi, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of \$	Effect on Income Before Tax <i>(In Thousands)</i>	Appreciation (Depreciation) of \$	Effect on Income Before Tax <i>(In Thousands)</i>
2018				
	1.50	₱16,063	1.50	¥-
	1.00	10,709	1.00	-
	(1.50)	(16,063)	(1.50)	-
	(1.00)	(10,709)	(1.00)	-
2017				
	1.50	₱36,534	1.50	(¥112,622)
	1.00	24,356	1.00	(75,082)
	(1.50)	(36,534)	(1.50)	112,622
	(1.00)	(24,356)	(1.00)	75,082

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, financial assets at FVTPL and equity instruments at FVOCI amounting to ₱38,766 million, nil and ₱639 million, respectively, as at December 31, 2018 and ₱44,372 million, ₱731 million and ₱641 million, respectively, as at December 31, 2017 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2018			
	Within 1 Year	More than Year to 5 Years	More than 5 Years	Total
<i>(In Thousands)</i>				
Loans payable	₱39,400	₱-	₱-	₱39,400
Accounts payable and other current liabilities*	49,454,491	—	—	49,454,491
Long-term debt (including current portion)	35,048,713	178,038,797	50,800,897	263,888,407
Derivative liabilities	—	335,008	—	335,008
Liability for purchased land - net of current portion	—	6,044,220	—	6,044,220
Tenants' deposits - net of current portion	—	18,177,479	—	18,177,479
Other noncurrent liabilities**	—	7,078,916	—	7,078,916
	₱84,542,604	₱209,674,420	₱50,800,897	₱345,017,921



	2017			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
<i>(In Thousands)</i>				
Loans payable	₱744,400	₱-	₱-	₱744,400
Accounts payable and other current liabilities*	41,316,183	—	—	41,316,183
Long-term debt (including current portion)	33,076,813	138,804,369	54,768,749	226,649,931
Derivative liabilities	—	777,408	—	777,408
Liability for purchased land - net of current portion	—	2,170,998	—	2,170,998
Tenants' deposits - net of current portion	—	16,039,216	—	16,039,216
Other noncurrent liabilities**	—	5,126,222	—	5,126,222
	₱75,137,396	₱162,918,213	₱54,768,749	₱292,824,358

* Excluding nonfinancial liabilities amounting to ₱12,313 million and ₱9,768 million as at December 31, 2018 and 2017, respectively.

** Excluding nonfinancial liabilities amounting to ₱3,433 million and ₱2,498 million as at December 31, 2018 and 2017, respectively.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments (see Notes 6, 8, 11 and 12).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The fair values of these financial assets are disclosed in Note 29. For receivables from real estate sale, the title of the real estate property is only transferred to the customer if the consideration had been fully paid. In case of default, after enforcement activities, the Company has the right to cancel the sale and enter into another contract to sell to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed. Given this, based on the experience of the Company, the maximum exposure to credit risk at the reporting date is nil considering that fair value less cost to reposess of the real estate projects is higher than the exposure at default. The Company evaluates the concentration of risk with respect to trade receivables and unbilled revenue from sale of real estate as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The changes in the gross carrying amount of receivables and unbilled revenue from sale of real estate during the year did not materially affect the allowance for ECLs.

As at December 31, 2018 and 2017, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

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

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



As at December 31, 2018 and 2017, the credit quality of the Company's financial assets is as follows:

	2018			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		(In Thousands)
Financial assets at amortized cost				
Cash and cash equivalents*	₱38,637,321	₱-	₱-	₱38,637,321
Receivables**	134,801	9,271,008	5,553,669	14,959,478
Cash in escrow (included under "Prepaid expenses and other current assets")	157,719	—	—	157,719
Time deposits (included under "Other noncurrent assets")	2,392,622	—	—	2,392,622
Financial assets at FVTPL				
Derivative assets	852,933	—	—	852,933
Financial assets at FVOCI				
Equity instruments	23,508,022	24,231	—	23,532,253
	₱65,683,418	₱9,295,239	₱5,553,669	₱80,532,326

* Excluding cash on hand amounting to ₱129 million

** Excluding nonfinancial assets amounting to ₱20,270 million

	2017			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		(In Thousands)
Financial assets at amortized cost				
Cash and cash equivalents*	₱44,285,071	₱-	₱-	₱44,285,071
Receivables**	300,363	26,001,944	7,685,839	33,988,146
Cash in escrow (included under "Prepaid expenses and other current assets")	50,881	—	—	50,881
Real estate receivable - noncurrent (included under "Other noncurrent assets")	15,854,070	—	—	15,854,070
Time deposits (included under "Other noncurrent assets")	3,800,809	—	—	3,800,809
Financial assets at FVTPL				
Investments held for trading -				
Bonds and shares	731,076	—	—	731,076
Derivative assets	3,546,694	—	—	3,546,694
Financial assets at FVOCI				
Equity instruments	31,090,564	15,581	—	31,106,145
	₱99,659,528	₱26,017,525	₱7,685,839	₱133,362,892

* Excluding cash on hand amounting to ₱86 million

** Excluding nonfinancial assets amounting to ₱2 million

Equity Price Risk

Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors its equity price risk pertaining to its investments in quoted equity securities which are classified as equity instruments designated at FVOCI in the consolidated balance sheets based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.



The effect on equity after income tax (as a result of change in fair value of equity instruments at FVOCI as at December 31, 2018 and 2017) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2018	
	Change in Equity Price	Effect on Equity
		<i>(In Millions)</i>
Equity instruments at FVOCI	+1.78% -1.78%	₱103 (103)
	2017	
	Change in Equity Price	Effect on Equity
		<i>(In Millions)</i>
Equity instruments at FVOCI	+2.94% -2.94%	₱242 (242)

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using the following gearing ratios as at December 31:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2018	2017
	<i>(In Thousands)</i>	
Loans payable	₱39,400	₱744,400
Current portion of long-term debt	25,089,624	25,344,035
Long-term debt - net of current portion	197,682,262	167,509,484
Total interest-bearing debt (a)	222,811,286	193,597,919
Total equity attributable to equity holders of the parent	275,302,994	258,957,221
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	₱498,114,280	₱452,555,140
Gearing ratio (a/b)	45%	43%



Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2018	2017
	<i>(In Thousands)</i>	
Loans payable	₱39,400	₱744,400
Current portion of long-term debt	25,089,624	25,344,035
Long-term debt - net of current portion	197,682,262	167,509,484
Less cash and cash equivalents and financial assets at FVTPL	(38,766,467)	(45,102,610)
Total net interest-bearing debt (a)	184,044,819	148,495,309
Total equity attributable to equity holders of the parent	275,302,994	258,957,221
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	₱459,347,813	₱407,452,530
Gearing ratio (a/b)	40%	36%

29. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values, as at December 31:

	2018	2017		
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(In Thousands)</i>			
Financial Assets				
Financial assets at FVTPL:				
Derivative assets	₱852,933	₱852,933	₱3,546,694	₱3,546,694
Financial assets at amortized cost:				
Time deposits (included under "Other noncurrent assets")	2,392,622	2,339,327	3,800,809	3,699,811
Financial assets at FVOCI:				
Equity instruments	23,532,253	23,532,253	31,106,145	31,106,145
Debt instruments	–	–	731,076	731,076
	26,777,808	26,724,513	39,184,724	39,083,726
Noncurrent portion of receivable from sale of real estate*	–	–	15,854,070	14,478,480
	₱26,777,808	₱26,724,513	₱55,038,794	₱53,562,206

Financial Liabilities

Financial liabilities at FVTPL -				
Derivative liabilities	₱335,008	₱335,008	₱777,408	₱777,408
Loans and borrowings:				
Liability for purchased land - net of current portion	₱6,044,220	₱6,011,668	₱2,170,998	₱2,107,453
Long-term debt - net of current portion	197,682,262	182,162,127	167,509,484	166,129,172
Tenants' deposits - net of current portion	18,177,479	17,770,876	16,039,216	15,569,760
Other noncurrent liabilities**	7,078,916	6,978,719	5,126,222	4,912,244
	₱229,317,885	₱213,258,398	₱191,623,328	₱189,496,037

*Accounted for as unbilled revenue from sale of real estate beginning January 1, 2018 upon adoption of PFRS 15

**Excluding nonfinancial liabilities amounting to ₱3,433 million and ₱2,498 million as at December 31, 2018 and 2017, respectively.



The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial Assets at FVTPL. The fair values are based on the quoted market prices of the instruments.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 4.72% as at December 31, 2017.

Equity Instruments at FVOCI. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.82% to 8.45% and from 3.14% to 6.86% as at December 31, 2018 and 2017, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 6.98% to 9.01% and 3.38% to 6.37% as at December 31, 2018 and 2017, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 7.80% to 7.85% and 4.47% to 4.97% as at December 31, 2018 and 2017, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;



Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2018		
	Level 1	Level 2	Level 3
(In Thousands)			
Financial Assets			
Financial assets at FVTPL -			
Derivative assets	₱-	₱852,933	₱-
Financial assets at amortized cost -			
Time deposits (included under "Other noncurrent assets")	–	2,339,327	–
Financial assets at FVOCI -			
Equity instruments	23,532,253	–	–
	₱23,532,253	₱3,192,260	₱-
Financial Liabilities			
Financial liabilities at FVTPL -			
Derivative liabilities	₱-	₱335,008	₱-
Other financial liabilities:			
Liability for purchased land - net of current portion	₱-	₱-	₱6,011,668
Long-term debt - net of current portion	–	–	182,162,127
Tenants' deposits	–	–	17,770,876
Other noncurrent liabilities*	–	–	6,978,719
	₱-	₱335,008	₱212,923,390

*Excluding nonfinancial liabilities amounting to ₱3,433 million as at December 31, 2018.

	2017		
	Level 1	Level 2	Level 3
(In Thousands)			
Financial Assets			
Financial assets at FVTPL:			
Derivative assets	₱-	₱3,546,694	₱-
Debt instruments	731,076	–	–
Financial assets at amortized cost:			
Noncurrent portion of receivable from sale of real estate sale*	–	–	14,478,480
Time deposits (included under "Other noncurrent assets")	–	3,699,811	–
Financial assets at FVOCI:			
Equity instruments	31,106,145	–	15,581
	₱31,837,221	₱7,246,505	₱14,494,061
Financial Liabilities			
Financial liabilities at FVTPL -			
Derivative liabilities	₱-	₱777,408	₱-
Other financial liabilities:			
Liability for purchased land - net of current portion	₱-	₱-	₱2,107,453
Long-term debt - net of current portion	–	–	166,129,172
Tenants' deposits	–	–	15,569,760
Other noncurrent liabilities*	–	–	4,912,244
	₱-	₱777,408	₱188,718,629

*Excluding nonfinancial liabilities amounting to ₱2,495 million as at December 31, 2017.



During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In June and July 2018, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on July 30, 2018.

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents (₱3,199 million for US\$60 million and ₱2,667 million for US\$50 million on June 14, 2023) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US\$ notional amount, on a quarterly to semi-annual basis, simultaneous with the interest payments on the hedged loans.

Fair value of the outstanding cross-currency swaps amounted to ₱25 million.

In 2017, SM Land (China) Limited entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on May 8, 2017 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed China renminbi equivalents (¥672 million for US\$100 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the China renminbi notional amount and receives floating interest on the US\$ notional amount, on a quarterly basis, simultaneous with the interest payments on the hedged loans at an interest rates ranging from 4.95% to 5.43%.

The outstanding cross-currency swaps has a negative fair value of ₱111 million.

In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents (₱8,134 million for US\$200 million on January 29, 2018 and ₱6,165 million for US\$150 million on March 23, 2018) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.



No gain or loss was recognized in consolidated statements of income upon maturity in January and March 2018 since these swaps are designated as cash flow hedges.

Principal only Swaps. In 2016 and 2017, SM Land (China) Limited entered into principal only swap transactions to hedge the foreign currency exposures amounting to \$420 million of five-year term syndicated loans and advances obtained on January 11, 2016 to March 22, 2016 and January 11-17, 2017 (see Note 19). Under the principal only swap, it effectively converted the hedged US dollar-denominated loans and advances into China renminbi-denominated loans.

As at December 31, 2018, SM Land (China) Limited's outstanding principal only swaps have notional amounts totaling US\$270 million which were fixed to US\$:¥ exchange rates ranging from 6.458 to 6.889 and will mature on January 29, 2021. The outstanding principal swaps has a negative fair value of ₡224 million.

Interest Rate Swaps. In 2017 and 2016, SM Land (China) Limited entered into US\$ interest rate swap agreement with notional amount of US\$150 million and US\$270 million, respectively. Under the agreement, SM Land (China) Limited effectively converts the floating rate U.S. dollar-denominated loan into fixed rate loan (see Note 19). Fair value of the outstanding interest rate swaps amounted to ₡434 million.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2018.

Below is the maturity profile of derivative financial instruments accounted for as cash flow hedges as at December 31, 2018:

Hedge Instruments*	Within 1 year	2 to 3 years	4 to 5 years	Total
(amounts in thousands)				
Cross currency swaps	\$-	\$-	\$210,000	\$210,000
Principal only swaps	—	270,000	—	270,000
Interest rate swaps	150,000	270,000	—	420,000
	\$150,000	\$540,000	\$210,000	\$900,000

*Notional amounts of hedge instruments are US dollar-denominated.

Assessment of Hedge Effectiveness

There is an economic relationship between the hedged items and the hedging instruments as the terms of the cross-currency swaps, principal only swaps and interest rate swaps match the terms of the hedged items (i.e., notional amount and expected payment date). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the cross-currency swaps, principal only swaps and interest rate swaps are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments and the counterparties' credit risk differently impacting the fair value movements of the hedging instruments.



Hedge Effectiveness Results

Hedge effectiveness is assessed at inception of the hedge, at each quarterly or semi-annual reporting date and upon a significant change in the circumstances affecting the hedge effectiveness requirements. As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to ₱124 million gain and ₱2,769 million gain as at December 31, 2018 and 2017, respectively, was taken to equity under other comprehensive income. For the years ended December 31, 2018 and 2017, no ineffectiveness was recognized in the consolidated statement of income. Foreign currency translation gain arising from the hedged loan amounting to ₱2,247 million in 2018 and ₱1,082 million in 2017 was recognized under other comprehensive income. Foreign currency translation loss arising from the hedged loan amounting to ₱2,119 million in 2016 was recognized under other comprehensive income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges

Non-deliverable Currency Forwards and Swaps. In 2018 and 2017, SMPH entered into sell ₱ and buy US\$ currency forward contracts. It also entered into sell US\$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱110 million gain, ₱27 million gain and ₱25 million gain in 2018, 2017 and 2016, respectively.

In 2018, SM Land (China) Limited entered into forward swap transactions to cap the foreign currency exposures on its U.S. dollar-denominated three-year term syndicated loans (the hedged loans) obtained on March 14, 2018 to May 25, 2018 (see Note 19).

As at December 31, 2018, SM Land (China) Limited's outstanding forward swaps consist of US\$100 million with low strike 6.3135 and high strike 6.4850, US\$100 million with low strike 6.2885 and high strike 6.4955 and US\$100 million with low strike 6.3828 and high strike 6.5473, all maturing at April 15, 2019. Fair value changes from the forward swaps recognized in the consolidated statements of income amounted to ₱410 million gain.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱2,769,286	₱5,102,735
Net changes in fair value during the year	(2,199,029)	(2,315,403)
Fair value of settled derivatives	(52,332)	(18,046)
Balance at end of year	₱517,925	₱2,769,286

In 2018, the net changes in fair value amounting to ₱2,199 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱58 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱2,645 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱504 million, which is included under "Others - net" account in the consolidated statements of income.



In 2017, the net changes in fair value amounting to ₦2,315 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₦9 million, which is charged against “Interest expense” account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₦2,333 million, which is included under “Net fair value changes on cash flow hedges” account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₦27 million, which is included under “Others - net” account in the consolidated statements of income.

30. EPS Computation

Basic/diluted EPS is computed as follows:

	2018	2017	2016
<i>(In Thousands, Except Per Share Data)</i>			
Net income attributable to equity holders of the parent (a)	₦32,172,886	₦27,573,866	₦23,805,713
Common shares issued	33,166,300	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	4,311,949	4,332,630	4,332,692
Weighted average number of common shares outstanding (b)	28,854,351	28,833,670	28,833,608
Earnings per share (a/b)	₦1.115	₦0.956	₦0.826

31. Change in Liabilities Arising from Financing Activities

Movements in loans payable and long-term debt accounts are as follows (see Note 17):

	2018		2017	
	Loans Payable	Long-term Debt	Loans Payable	Long-term Debt
<i>(In Thousands)</i>				
Balance at beginning of year	₦744,400	₦192,853,519	₦840,000	₦163,537,685
Availments	–	₦54,115,835	4,639,400	37,358,271
Payments	(475,000)	(26,737,233)	(4,735,000)	(9,811,140)
Cumulative translation adjustment	–	(188,713)	–	2,675,627
Foreign exchange movement	–	2,677,665	–	(991,740)
Loan refinancing	(230,000)	230,000	–	–
Others	–	(179,187)	–	84,816
Balance at end of year	₦39,400	₦222,771,886	₦744,400	₦192,853,519

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



32. Other Matters

Bases Conversion and Development Authority (BCDA) Case

In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA. On August 13, 2014, the Supreme Court granted the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others (“Decision”). BCDA filed several Motions for Reconsideration of the Decision, which motions were all denied by the Supreme Court. The Supreme Court subsequently ordered the issuance of an Entry of Judgment, and the Decision became final and executory.

On 23 February 2018, BCDA conducted the opening, examination and ranking of proposals for the Competitive Challenge in accordance with the 2008 NEDA Guidelines. On 21 March 2018, the Company exercised its right to match a bid submitted by a challenger. After the conduct of post-qualification, BCDA declared the Company’s offer as the best and most advantageous proposal and issued a Notice of Award in favor of the Company. BCDA and the Company are working in accordance with applicable laws.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 11, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.


Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-AR-1 (Group A),
August 6, 2018, valid until August 5, 2021
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332635, January 3, 2019, Makati City

February 11, 2019



Schedule A

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Financial Assets
As at December 31, 2018
(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Show in the Balance Sheet as at December 31, 2018	Income Received and Accrued
Financial Assets at Amortized Cost*			
Temporary investments:			
Banco de Oro (BDO)	PHP 13,400,403	PHP 13,400,403	
China Banking Corporation (CHIB)	PHP 8,854,887	8,854,887	
China Construction Bank	RMB 619,000	4,729,655	
China Industrial Bank	RMB 380,000	2,903,504	
Bank of East Asia Ltd	RMB 201,200	1,537,329	
China Citic Bank	RMB 200,000	1,528,160	
Bank of China	RMB 150,000	1,146,120	
China Merchants Bank	RMB 85,810	655,657	
Industrial and Commercial Bank of China	RMB 3,100	23,689	
Others	PHP 99,463	99,463	
Time deposits on hold:			
BDO	PHP 2,329,223	2,329,223	
CHIB	PHP 53,374	53,374	
Land Bank of the Philippines	PHP 10,025	10,025	
Cash in escrow:			
BDO	PHP 157,719	157,719	
		PHP 37,429,208	PHP 1,332,363
Financial Assets at FVPL			
Derivative assets	PHP 852,933	PHP 852,933	
		PHP 852,933	PHP 0
Financial Assets at FVOCI			
BDO Unibank, Inc.	90,024,395 shares	PHP 11,775,191	
Ayala Corporation	8,581,204 shares	7,723,084	
China Banking Corporation	119,404,664 shares	3,235,866	
Shang Properties, Inc.	189,550,548 shares	591,398	
SM Investments Corporation	146,104 shares	134,050	
Republic Glass Holding Corporation	14,230,000 shares	37,283	
Tagaytay Midlands Golf Club, Inc.	24 shares	15,600	
Picop Resources, Inc.	40,000,000 shares	8,200	
The Country Club at Tagaytay Highlands	35 shares	5,250	
Philippine Long Distance Telephone Company	253,270 shares	2,533	
Export & Industry Bank	7,829,000 shares	2,035	
Prime Media Holdings, Inc.	500,000 shares	615	
Benguet Corporation	266,757 shares	400	
Others	852 shares	748	
		PHP 23,532,253	PHP 394,106
		PHP 61,814,394	PHP 1,726,469

*Excluding cash on hand and in banks.

Schedule C

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements

As at December 31, 2018

(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
SM Land (China) Limited and Subsidiaries	₱3,998,076	₱2,021,135	(₱98,963)	₱-	₱-	₱5,920,248	₱5,920,248
San Lazaro Holdings Corporation	245,050	1,216,645	-	-	-	1,461,695	1,461,695
SM Prime Holdings, Inc.	498,447	4,841,380	(4,461,236)	-	-	878,591	878,591
Costa del Hamilo, Inc. and Subsidiary	840,668	59,334	(42,816)	-	-	857,186	857,186
SM Development Corporation and Subsidiaries	40,767	822,751	(215,825)	-	-	647,693	647,693
Associated Development Corporation	179,500	-	(4,491)	-	-	175,009	175,009
SM Hotels and Conventions Corp. and Subsidiaries	30,121	705,550	(602,173)	-	-	133,498	133,498
Prime Commercial Property Management Corp.	86,322	571	(20)	-	-	86,873	86,873
Tagaytay Resort and Development Corporation	32,879	3,767	-	-	-	36,646	36,646
SM Arena Complex Corporation	20,356	38,671	(37,786)	-	-	21,241	21,241
Premier Central, Inc.	-	15,605	-	-	-	15,605	15,605
Premier Southern Corp.	-	13,335	-	-	-	13,335	13,335
CHAS Realty and Development Corporation and Subsidiaries	-	1,262	-	-	-	1,262	1,262
Prime Metroestate, Inc.	38	8,420	(7,811)	-	-	647	647
Southernpoint Properties Corp.	-	1,700	(1,146)	-	-	554	554
First Leisure Ventures Group, Inc.	-	133	-	-	-	133	133
Highlands Prime, Inc.	82	1,629	(1,642)	-	-	69	69
MOA Esplanade Port Inc	-	347	(331)	-	-	16	16
	₱5,972,306	₱9,752,235	(5,474,240)	₱-	₱-	₱10,250,301	₱10,250,301

Schedule H**SM PRIME HOLDINGS, INC.****Capital Stock****As at December 31, 2018***(Shares in Thousand)*

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,879,232	17,388,359	3,435,985	8,054,888

Annex I

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

Reconciliation of Retained Earnings Available for Dividend Declaration **December 31, 2018**

Unappropriated retained earnings as at January 1, 2018	₱118,021,548,295
Adjustments for:	
Non-actual/unrealized income, net of applicable tax:	
Equity in net earnings of subsidiaries, associates and joint ventures	(70,483,258,708)
Unrealized foreign exchange loss in 2017	116,173,982
Treasury stock	(2,613,650,429) <u>(72,980,735,155)</u>
Unappropriated retained earnings as at January 1, 2018, available for dividend declaration	45,040,813,140
Net income closed to retained earnings in 2018	<u>30,900,992,426</u>
Net income actually earned in 2018	75,941,805,566
Adjustments for:	
Non-actual/unrealized income, net of applicable tax:	
Equity in net earnings of subsidiaries, associates and joint ventures	(14,423,642,477)
Unrealized foreign exchange loss in 2017 realized in 2018	(116,173,982)
Unrealized foreign exchange gain in 2018	(62,242,229)
Cash dividends in 2018	(10,107,731,072) <u>(24,709,789,760)</u>
Retained earnings as at December 31, 2018 available for dividend declaration	<u>₱51,232,015,806</u>

Annex II

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓

* Standards and interpretations which will become effective subsequent to December 31, 2018.

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 2 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
	Amendments to PFRS 3: Business Combinations*	Not Early Adopted		
	Amendments to PFRS 3: Definition of a Business*	Not Early Adopted		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectiveness

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 3 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	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	✓		
	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, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**		Not Early Adopted	
	Amendments to PFRS 10: Consolidated Financial Statements*		Not Early Adopted	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendments to PFRS 11: Joint Arrangements: Previously Held Interest in a Joint Operation*		Not Early Adopted	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12, Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases*		Not Early Adopted	
PFRS 17	Insurance Contracts*		Not Early Adopted	

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectivity

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 4 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1: Presentation of Financial Statements*	Not Early Adopted		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*	Not Early Adopted		
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			✓
	Amendments to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity*	Not Early Adopted		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectivity

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 5 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Employee Benefits, Plan Amendment, Curtailment or Settlement*	Not Early Adopted		
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	✓		
	Amendments to PAS 23: Borrowing Costs, Borrowing Costs Eligible for Capitalization*	Not Early Adopted		
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	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectivity

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 6 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	Not Early Adopted		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectiveness

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 7 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization	✓		
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectiveness

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 8 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	✓		

* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectiveness

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Annex II

- 9 -

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 15	Agreements for the Construction of Real Estate	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
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	✓		
IFRIC 23	Uncertainty over Income Tax Treatments*	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

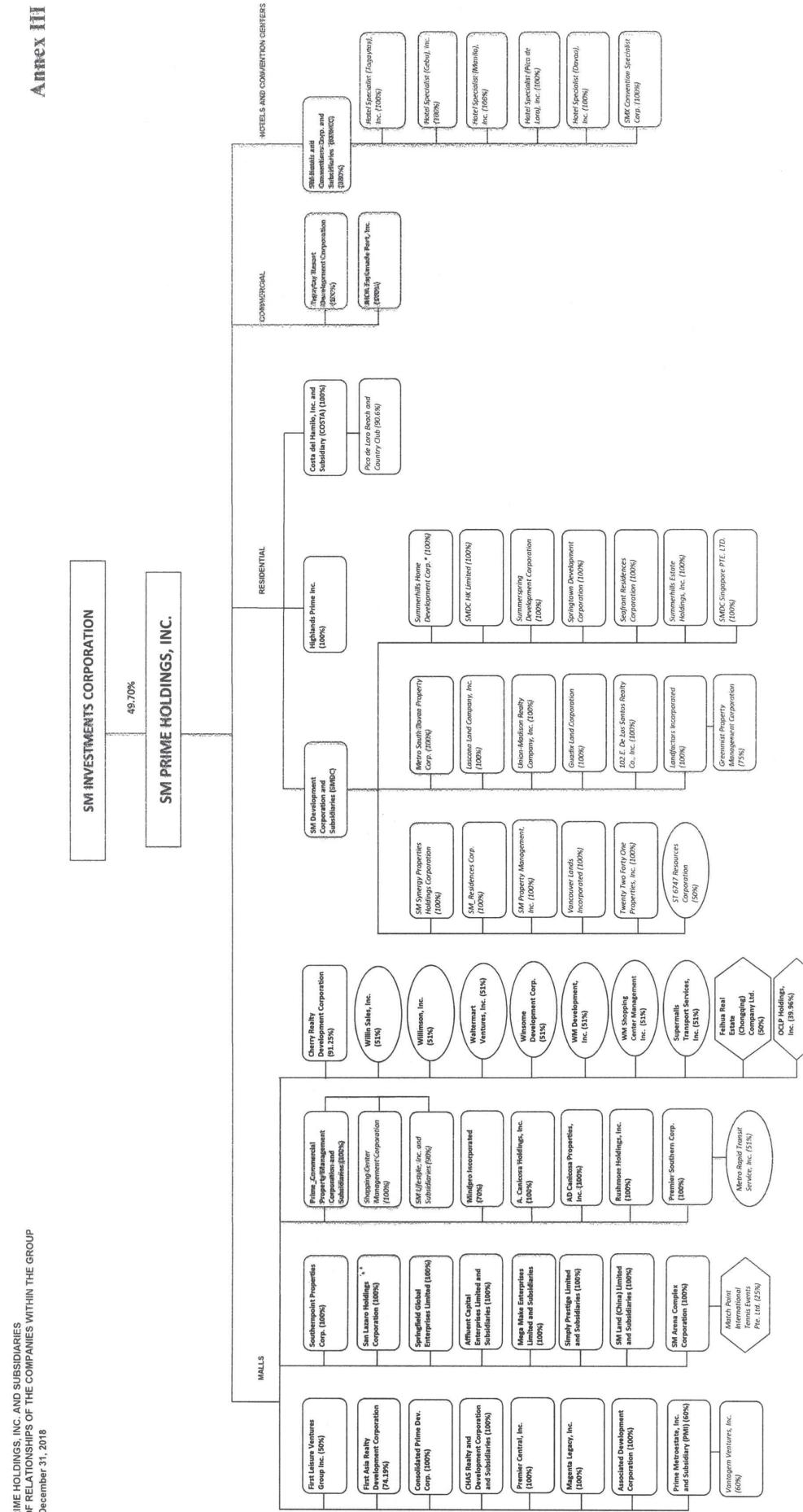
* Standards and interpretations which will become effective subsequent to December 31, 2018.

** Standards and interpretations with deferred effectiveness

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

SM PRIME HOLDINGS, INC.

69-70%



Annex IV

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
AS OF DECEMBER 31, 2018 and 2017

	December 31, 2018	December 31, 2017
i. Current ratio		
<u>Total current assets</u> Total current liabilities	1.45	1.61
Acid - Test Ratio		
<u>Total current assets less inventory and prepaid expenses</u> Total current liabilities	0.85	1.02
ii. Debt-to-equity ratio		
<u>Total interest-bearing liabilities</u> Total equity attributable to equity holders of the parent	45:55	43:57
Net debt-to-equity ratio		
<u>Total interest-bearing liabilities less cash and cash equivalents and investment securities</u> Total equity attributable to equity holders of the parent	40:60	36:64
Solvency Ratio		
<u>Total assets</u> Total liabilities	1.86	1.95
iii. Asset to equity ratio		
<u>Total assets</u> Total equity attributable to equity holders of the parent	2.19	2.08
iv. Interest Service Coverage		
<u>Earnings before interest, income taxes, depreciation and amortization (EBITDA)</u> Interest expense	7.59	8.96
Debt to EBITDA		
<u>Total interest-bearing liabilities</u> EBITDA	3.89	3.95
v. Return on equity		
<u>Net income attributable to equity holders of the parent</u> Total average equity attributable to equity holders of the parent	12%	11%
Return on investment properties		
<u>Net income attributable to equity holders of the parent</u> Total average investment properties (excluding shopping mall complex under construction)	13%	12%

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Retail Bond – Series H and I
As of December 31, 2018

(1) Gross and Net Proceeds as Disclosed in the Final Prospectus

	₱15.0B Issue Size	₱5.0 B Over-Subscription Option	Total Proceeds (inclusive of Over- Subscription)
Gross Proceeds	₱15,000,000,000	₱5,000,000,000	₱20,000,000,000
Estimated Expenses	146,326,023	43,817,204	190,143,227
Net Proceeds	<u>₱14,853,673,977</u>	<u>₱4,956,182,796</u>	<u>₱19,809,856,773</u>

(2) Actual Gross and Net Proceeds

Gross Proceeds	₱20,000,000,000
Actual Expenses	236,566,215
Net Proceeds	<u>₱19,763,433,785</u>

(3) Each Expenditure Item where the Proceeds were Used

The net proceeds was used to finance capital expenditures of the following:

Projects	Amounts in million
BCDA Taguig	₱3,573
SM Fairview Tower 5 (BPO)	1,780
SM Center Dagupan	1,272
SM Strata	1,234
GGDC Clark	1,000
NU Tower	939
SM Mall of Asia Expansion	772
SM North Edsa Towers 1 and 2	770
SM City Telabastagan	569
SM City Butuan	518
SM City Legazpi	515
SM City Baguio Expansion	477
SM City Daet	453
Scandi Tower	415
SM City Urdaneta Central	396
SM Retail Office Building	362
SM City Grand Central	267
SM City Olongapo Central	123
SM Fairview Tower 1 (NU)	87
SM Dagupan	75
SM City Bataan	67
SM Mindpro Citimall	64
SM Urdaneta 1	19
TOTAL	₱15,747

(4) As of December 31, 2018, ₱15,747 million was used in financing capital expenditures.

Republic of the Philippines)
Pasig City, Metro Manila) S.S.

CERTIFICATION

I, ELMER B. SERRANO, of legal age, Filipino, and with office address at the 33rd Floor, The Orient Square, F. Ortigas, Jr. Road, Ortigas Center, Pasig City, after being duly sworn in accordance with law, hereby depose and state that:

1. I am the Corporate Secretary of **SM Prime Holdings, Inc.** (the **Corporation**), a corporation organized and existing under and by virtue of the laws of the Philippines, with office address at Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines.

2. Based on corporate records and as of this date, none of the directors, independent directors and officers of the Corporation named in the Information Statement (SEC Form 20-IS) has been elected or appointed to, and is presently occupying a position in any government agency, bureau, department, or office.

3. I am issuing this Certificate in compliance with the requirement of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature on this
FEB 19 2019 at Pasig City.



ELMER B. SERRANO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this FEB 19 2019 at Pasig City,
affiant exhibited to me his Tax Identification No. [REDACTED]

Doc No. 004;
Page No. 002;
Book No. 1;
Series of 2019.



KATHLEEN MAE C. TUASON
Appointment No. 16 (2018-2019)
Notary Public for Pasig City
Until December 31, 2019
Attorney's Roll No. 70340
33rd Floor, The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR Receipt No. 5212723; 1.04.19; Pasig City
IBP Lifetime No. 017279; 05.19.17; RSM
MCLE Compliance No. VI-0015879; 4.14.22

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, JOSE L. CUISIA, JR., Filipino, of legal age, and a resident of [REDACTED], after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 1994.
2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
PHINMA Corp. (PLC)	Non-Executive Director	1993-present
Manila Water Co., Inc. (PLC)	Independent Director	2010-present
Century Properties Group, Inc. (PLC)	Independent Director	2015-present
PHINMA Inc.	Non-Executive Director	2014-present
The Covenant Car Company	Chairman of the Board	2013-present
FWD Insurance	Non-Executive Director	2016-present
	Chairman of the Board	2018-present
Asian Breast Center	Non-Executive Director	2017-present
Starr International Companies	Chairman of the Board	2017-present
University of Asia & the Pacific and CRC Foundation	Vice Chairman of the Board of Trustees	2017-present
Ramon V. del Rosario Center for Corporate Responsibility at AIM	Co-Chairman of the Advisory Board	2017-present
Rizalino Navarro Center for Competitiveness at AIM	Chairman of the Advisory Board	2017-present
Ramon Magsaysay Foundation	Chairman of the Board	2017-present
Philippine Business for Education (PBEd)	Convenor-Trustee	2006-present
Five J's Diversified Holdings Inc.	Chairman – Majority Shareholder	2001-present
Adlemi Properties	Chairman – Majority Shareholder	2003-present

JVC Holdings Corp.	Chairman - Majority Shareholder	2004-present
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3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceedings solely by virtue of and in connection with our directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	<p>The City Government of Cebu filed a complaint against directors and officers of the SM Prime in their official capacities for alleged misrepresentations regarding the premises of SM Seaside City Cebu in connection with its real property tax assessment.</p> <p>The Complaint was dismissed due to insufficiency of evidence.</p> <p>The Cebu City Government filed a <i>Motion for Reconsideration</i> of the complaint's dismissal, which was denied by the Department of Justice-Manila in a Joint Resolution dated 18 October 2018.</p> <p>On 4 February 2019, SM Prime received a copy of Cebu City's <i>Petition for Certiorari</i> assailing the Joint Resolution.</p>
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	<p>The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM</p>

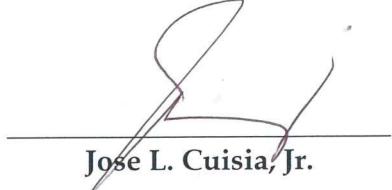
		<p>Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence. The Cebu City Government filed a <i>Motion for Reconsideration</i> which was denied by the investigating prosecutor assigned by Department of Justice-Manila (DOJ).</p> <p>The Cebu City Government then filed a <i>Petition for Review</i> with the Regional Prosecution Office, Cebu City (RPO). The respondents filed their respective Comments to the Petition. The Petition for Review and the Comments have been elevated by the RPO to DOJ.</p> <p>On 9 November 2018, the DOJ indorsed the case back to RPO.</p> <p>On 23 November 2018, the RPO inhibited from the case and returned the case to DOJ.</p> <p>The matter is currently pending with the DOJ.</p>
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6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

Signature page follows

IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 11 2019 at
PASIG CITY, Metro Manila.



Jose L. Cuisia, Jr.

FEB 11 2019

SUBSCRIBED AND SWORN TO before me this _____, at

PASIG CITY, affiant exhibiting to me his Tax Identification No. [REDACTED]

Doc. No. 517;
Page No. 105;
Book No. III;
Series of 2019.

Notary Public

KATHLEEN M. C. TUASON
Appointment No. 15 (2018-2019)
Notary Public for Pasig City
Until December 31, 2019
Attorney's Roll No. 70340
33rd Floor, The Orient Square
E. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR Receipt No. 5212723; 1.04.19; Pasig City
IRD Lifetime No. 017279; 05.19.17; RSM
MCLE Compliance No. VI-0015879; 4.14.22

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, GREGORIO U. KILAYKO, Filipino, of legal age and a resident of [REDACTED] after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 2008.
2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
Belle Corporation	Independent Director	2003 to Present
Philequity Fund	Independent Director	2014 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (**where applicable**)

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceeding solely by virtue of and in connection with our directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	<p>The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence.</p> <p>The Cebu City Government filed a <i>Motion for Reconsideration</i> which was denied by the investigating prosecutor assigned by Department of Justice-Manila (DOJ).</p>

		<p>The Cebu City Government then filed a <i>Petition for Review</i> with the Regional Prosecution Office, Cebu City (RPO). The respondents filed their respective Comments to the Petition. The Petition for Review and the Comments have been elevated by the RPO to DOJ.</p> <p>On 9 November 2018, the DOJ indorsed the case back to RPO.</p> <p>On 23 November 2018, the RPO inhibited from the case and returned the case to DOJ.</p> <p>The matter is currently pending with the DOJ.</p>
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6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

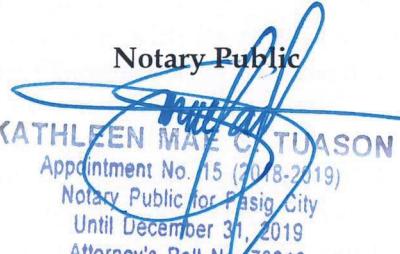
IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 11 2019 at
PASIG CITY Metro Manila.



Gregorio U. Kilayko

PASIG CITY SUBSCRIBED AND SWORN TO before me this FEB 11 2019, at _____, affiant exhibiting to me his Tax Identification No. [REDACTED]

Doc. No. 516;
 Page No. 105;
 Book No. III;
 Series of 2019.

Notary Public

 KATHLEEN MAE C. TUASON
 Appointment No. 15 (2018-2019)
 Notary Public for Pasig City
 Until December 31, 2019
 Attorney's Roll No. 70340
 33rd Floor, The Orient Square
 F Ortigas, Jr. Road, Ortigas Center, Pasig City
 PTR Receipt No. 5212723; 1.04.19; Pasig City
 ICP Lifetime No. 017279; 05.19.17; RSM
 MCLE Compliance No. VI-0015879; 4.14.22

REPUBLIC OF THE PHILIPPINES)

) S.S.

PASIG CITY

CERTIFICATION OF INDEPENDENT DIRECTOR

I, JOSELITO H. SIBAYAN, Filipino, of legal age and a resident of [REDACTED], after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 2011.
2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
Mabuhay Capital Corporation	President and CEO	2006 to Present
Apex Mining Company, Inc.	Independent Director	2014 to Present
A Brown Company, Inc.	Regular Director	2017 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceeding solely by virtue of and in connection with their directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	<p>The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence.</p> <p>The Cebu City Government filed a <i>Motion for Reconsideration</i> which was denied by the investigating prosecutor assigned by Department of Justice-Manila (DOJ).</p>

		<p>The Cebu City Government then filed a <i>Petition for Review</i> with the Regional Prosecution Office, Cebu City (RPO). The respondents filed their respective Comments to the Petition. The Petition for Review and the Comments have been elevated by the RPO to DOJ.</p> <p>On 9 November 2018, the DOJ indorsed the case back to RPO.</p> <p>On 23 November 2018, the RPO inhibited from the case and returned the case to DOJ.</p> <p>The matter is currently pending with the DOJ.</p>
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6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

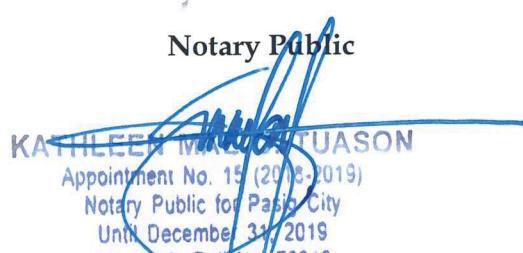
IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 11 2019 at PASIG CITY, Metro Manila.



Joselito H. Sibayan

SUBSCRIBED AND SWORN TO before me this FEB 11 2019, at PASIG CITY, affiant exhibiting to me his Tax Identification No. [REDACTED]

Notary Public



KATHLEEN M. TUASON

Appointment No. 15 (2018-2019)

Notary Public for Pasig City

Until December 31, 2019

Attorney's Roll No. 70340

33rd Floor, The Orient Square

F Ortigas, Jr. Road, Ortigas Center, Pasig City

PTR Receipt No. 5212723; 1.04.19; Pasig City

IDP Lifetime No. 017279; 05.19.17; RSM

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Doc. No. 515;
Page No. 104;
Book No. III;
Series of 2019.

SM PRIME HOLDINGS, INC.

2019 ANNUAL STOCKHOLDERS' MEETING ELECTRONIC VOTING PROCEDURE

1. Stockholders of SM Prime Holdings, Inc. (**SM Prime** or the **Company**) as of 20 March 2019 (**Record Date**) holding certificated shares, if not personally attending the Annual Stockholders' Meeting (**ASM**) on April 23, 2019 but wanting to vote in a specific manner on matters to be taken up, can participate by appointing the Chairman of the Meeting or another individual as his proxy for the ASM and pre-cast his votes using the Company's secure online voting portal at eVote.smprime.com.
2. The online voting portal shall be open from April 1, 2019 (2:30 p.m.) until April 20, 2019 (2:30 p.m.).
3. The log-in instructions to the online voting portal will be sent to certificated stockholders of the Company as of Record Date along with the Notice of Meeting.
4. Upon accessing the portal, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended to the Notice of Meeting.
 - 4.1. A stockholder has the option to vote "Yes", "No", or "Abstain" on each agenda item for approval.
 - 4.2. For the election of directors, the stockholder has the option to vote for all nominees, not vote for any of the nominees, or vote for specified nominees only.

Note: A stockholder may vote such number of his/her shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected (8 directors for SM Prime) multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholder.

5. Once the stockholder has finalized his vote, he can proceed to submit his vote by clicking the "Submit" button. No change in votes are allowed upon submission of votes.
6. The stockholder will then be directed to the page containing the proxy form, as

follows:

PROXY FORM

Thank you for voting! Your votes have been stored in our system and will be counted subject to validation. Kindly fill out all entries and print two (2) copies of this proxy form.

Your proxy, unless the Chairman of the Meeting, should present this form during registration on the day of the ASM.

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

DATE



Print Proxy Form

7. The stockholder will click the “Print Proxy Form” button and print two (2) copies of the proxy form and must fill out all entries.
8. The stockholder should submit one (1) duplicate original of the accomplished proxy form with the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City at least seventy-two (72) hours before the ASM, in accordance with the By-laws of the Company.

9. The named proxy must present the duplicate original of the accomplished proxy form to representatives of the Company/stock transfer agent during registration on the day of the ASM to confirm his attendance on behalf of the stockholder. Representatives of the Company/stock transfer agent will then scan the QR code in the proxy form and the system will automatically count the votes casted by the stockholder.
10. If the stockholder names the Chairman of the Meeting as his proxy, there will be no need to submit the signed copy during the ASM. The pre-casted votes will be automatically counted as verified by the Corporate Secretary.

For any concerns, please contact the Company's Investor Relations Division at (632) 862-7942 or via email at info@smprime.com.