

COVER SHEET

SEC Registration Number

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Company Name

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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

8857-0100

Mobile Number

—

No. of Stockholders

1,260 (as of April 30, 2020)

Annual Meeting
Month/Day

June 24, 2020

Fiscal Year
Month/Day

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Mr. Frederic C. DyBuncio

Email Address

—

Telephone Number/s

8857-0100

Mobile Number

—

Contact Person's Address

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

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



INVESTMENTS CORPORATION

Notice of Annual Stockholders' Meeting June 24, 2020 at 2:30 p.m.

To all Stockholders:

The 2020 Annual Stockholders' Meeting of SM Investments Corporation (the **Company**) will be held on June 24, 2020 at 2:30 p.m., with the proceedings livestreamed and voting conducted in absentia through the Company's secure online voting facility. The agenda of the meeting is set forth below:

A G E N D A

1. Call to order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Annual Meeting of Stockholders held on April 24, 2019
4. Annual Report for the Year 2019 (Open Forum)
5. 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
6. Election of Members of the Board of Directors for 2020-2021
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

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

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (**PSE**) on **May 24, 2020** as the record date for the determination of stockholders entitled to notice of, participation via remote communication, and voting *in absentia* at such meeting and any adjournment thereof.

Stockholders who wish to participate in the meeting via remote communication and to exercise their vote *in absentia* must notify the Corporate Secretary by registering at [<asmregister.sminvestments.com>](http://asmregister.sminvestments.com) and submitting supporting information listed there on or before **June 15, 2020**. All information submitted will be subject to verification and validation by the Corporate Secretary.

Stockholders who wish to appoint a proxy may accomplish the attached proxy form (which need not be notarized) and submit the same to the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City 1600 at least seven (7) business days (or until June 15, 2020) before the annual meeting, as provided in the By-laws. Validation of proxies will be conducted on June 17, 2020 at the Office of the Corporate Secretary.

Successfully registered stockholders can then cast their votes in *absentia* through the Company's secure online voting facility and will be provided access to the live streaming of the meeting. For the detailed registration and voting procedures, please refer to the ***"Guidelines for Participation via Remote Communication and Voting in Absentia"*** appended to the Definitive Information Statement posted on the Company's website and PSE EDGE.

In compliance with SEC Resolution No. 196, Series of 2015, a copy of the Unaudited Interim Financial Statements of the Company for the period ended March 31, 2020 shall be posted in the Company's website <www.sminvestments.com/asm2020> and PSE EDGE on or before June 18, 2020. Hard copies of the interim financial statements shall be provided upon written request of any stockholder.

For complete information on the annual meeting, please visit <www.sminvestments.com/asm2020>.

Pasig City, May 19, 2020.

BY THE ORDER OF THE BOARD OF DIRECTORS



ELMER B. SERRANO

Corporate Secretary

SM INVESTMENTS CORPORATION

Rationale for Agenda Items:

Agenda Item 3: To acknowledge and consider for approval the Minutes of Annual Stockholders' Meeting (ASM) held on April 24, 2019.

The minutes were also posted on the website of SM Investments Corporation (SMIC) within the period prescribed by pertinent rules and regulations. The Board of Directors recommends that the stockholders consider subject minutes for approval on June 24, 2020.

Agenda Item 4: To acknowledge and consider for approval the Annual Report of the Company for 2019.

The Company's 2019 performance results have been duly summarized in the Annual Report which includes the Audited Financial Statements (AFS) of the Company for the year ended 2019. The AFS have been audited by the external auditors who expressed an unqualified opinion on the aforementioned financial statements, and have been reviewed and recommended for approval by the Audit Committee and the Board of Directors. Any stockholder who would like to receive a hard copy of the 2019 Annual Report may request for a copy from the Investor Relations Office.

Agenda Item 5: To acknowledge and ratify all the acts of the Board of Directors and Management from the date of the last ASM to the date of this meeting.

The Company's performance in 2019, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by Management in conformance with good corporate governance and ethical best practices.

Agenda Item 6: To elect the Board of Directors for 2020 to 2021.

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

Agenda Item 7: To consider and approve the Audit Committee's recommendation for the appointment of the external auditor.

Based on the recommendation of the Audit Committee, the Board nominates SyCip Gorres Velayo & Co. (SGV & Co.) as the Company's external auditor for 2020. SGV & Co. is one of the top auditing firms in the country which is duly accredited with the Securities and Exchange Commission. The stockholders are also endorsed to delegate to the Board the authority to approve the appropriate audit fee for 2020.

Pasig City, May 19, 2020.

PROXY

The undersigned stockholder of SM Investments Corporation (the “**Company**”) appoints _____ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote _____ shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on June 24, 2020 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous annual stockholders’ meeting.
___ Yes ___ No ___ Abstain
2. Approval of 2019 Annual Report.
___ Yes ___ No ___ Abstain
3. Ratification of all acts and resolutions of the Board of Directors and Management.
___ Yes ___ No ___ Abstain
4. Election of Directors.
___ a) Vote for all nominees listed below:

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

___ b) Withhold authority for all nominees listed above

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

_____	_____
_____	_____
_____	_____
_____	_____

5. Election 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 be properly come before the meeting.
___ Yes ___ No ___ Abstain

Printed Name of Stockholder

Signature of Stockholder /
Authorized Signatory

Date

(SAMPLE PROXY FORM FOR CORPORATIONS)

SECRETARY'S CERTIFICATE

I, _____, Filipino, of legal age and with office address at _____, certify that:

1. I am the duly appointed Corporate Secretary of _____ (the "**Company**"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at _____;
2. As of record date, the Company holds _____ (_____) shares in SM Investments Corporation;
3. Based on the records, during the lawfully convened meeting of the Board of Directors of the Company held on _____, the following resolution was passed and approved:

"RESOLVED, That _____ be authorized and appointed, as he is hereby authorized and appointed, as the Company's proxy (the "**Proxy**") to attend all meetings of the stockholders of SM Investments Corporation (**SMIC**) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Company held in SMIC and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Company.

"RESOLVED, FINALLY, That SMIC be furnished with a certified copy of this resolution and SMIC may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

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

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

Printed Name and Signature of the
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on _____ in _____
_____. Affiant exhibited to me his Competent Evidence of Identity by way of _____ issued on _____ at _____.

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

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **JUNE 15, 2020 (MONDAY)**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED.



2020 ANNUAL STOCKHOLDERS' MEETING
June 24, 2020 at 2:30 pm

Guidelines for Participating via Remote Communication and Voting *in Absentia*

The 2020 Annual Stockholders' Meeting (ASM) of SM Investments Corporation (SMIC or the **Company**) is scheduled on **June 24, 2020 at 2:30pm** and the Board of Directors of the Company has fixed the end of trading hours of the Philippine Stock Exchange on **May 24, 2020 (Record Date)** 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 light of the ongoing community quarantine imposed in several areas of the country and in consideration of health and safety concerns of everyone involved, shall allow attendance, participation and voting by stockholders via remote communication or *in absentia* pursuant to Sections 23 and 57 of the Revised Corporation Code of the Philippines and SEC Memorandum Circular No. 6-2020.

Registration

Stockholder must notify the Corporate Secretary of their intention to participate in the ASM via remote communication and to exercise their right to vote *in absentia* no later than **June 15, 2020**, by registering at <asmregister.sminvestments.com> and by submitting the following supporting documents/information, subject to verification and validation:

- For Certificated Individual Stockholders
 1. Copy of valid government-issued ID of stockholder/proxy
 2. Stock certificate number/s, if available
 3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
 4. Email-address and contact number of stockholder or proxy
- For Certificated Multiple Stockholders or Joint Owners
 1. Copy of valid government-issued IDs of ALL registered stockholders
 2. Stock certificate number/s, if available
 3. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need *not* be notarized)
 4. Email-address and contact number of authorized representative
- For Certificated Corporate Stockholders
 1. Secretary's Certification of Board resolution appointing and authorizing proxy to

- participate in the ASM
 - 2. Valid government-issued ID of the authorized representative
 - 3. Stock certificate number/s, if available
 - 4. Email-address and contact number of authorized representative
- For Stockholders with Shares under PCD Participant/Broker Account
 - 1. Certification from broker as to the number of shares owned by stockholder
 - 2. Valid government-issued ID of stockholder
 - 3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
 - 4. Email-address and contact number of stockholder or proxy

Important Reminder: Please refrain from sending duplicate and inconsistent information/documents as this can result in failed registration. All documents/information shall be subject to verification and validation by the Company.

Online Voting

Stockholders who have successfully registered shall be notified via email of their unique log-in credentials for the voting portal. Stockholders can then cast their votes for specific items in the agenda, as follows:

1. Log-in to the voting portal by clicking the link, and using the log-in credentials, sent by email to the email address of the stockholder provided to the Company.
2. Upon accessing the portal, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended as Annex A to the Notice of Meeting.
 - 2.1 A stockholder has the option to vote "Yes", "No", or "Abstain" on each agenda item for approval.
 - 2.2 For the election of directors, the stockholder has the option to vote for all nominees, withhold vote for any of the nominees, or vote for certain 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 (eight [8] directors for SMIC) 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.*

3. Once the stockholder has finalized his vote, he can proceed to submit his vote by clicking the "Submit" button.

4. The stockholder can still change and re-submit votes, provided, such new votes are submitted using the same log-in credentials. Previous votes will be automatically overwritten and replaced by the system with the new votes cast.

ASM Livestream

The ASM will be broadcasted live and stockholders who have successfully registered can participate via remote communication. Details of the meeting will be sent to stockholders in the emails provided to the Company. Instructions on how to access the livestream will also be posted at [<www.sminvestments.com/asm2020>](http://www.sminvestments.com/asm2020).

Video recordings of the ASM will be adequately maintained by the Company and will be made available to participating stockholders upon request.

Open Forum

During the virtual meeting, the Company will have an Open Forum, during which, the meeting's moderator will read and where representatives of the Company shall endeavor to answer as many of the questions and comments received from stockholders as time will allow.


Stockholders may send their questions in advance by sending an email bearing the subject "ASM 2020 Open Forum" to [<asm2020@sminvestments.com>](mailto:asm2020@sminvestments.com) no later than June 23, 2020. A section for stockholder comments/questions or a "chatbox" shall also be provided in the livestreaming platform.


Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by the Company's Investor Relations.

For any queries or concerns regarding this Guidelines, please contact the Company's Corporate Governance Team at (632) 8857-0100 or via email at [<asm2020@sminvestments.com>](mailto:asm2020@sminvestments.com).

For complete information on the annual meeting, please visit [<www.sminvestments.com/asm2020>](http://www.sminvestments.com/asm2020).

P R O F I L E S O F T H E B O A R D O F D I R E C T O R S

<div>JOSE T. SIO</div> <div>Chairman of the Board</div>								
<div>Member, Audit Committee</div> <div>Member, Risk Management Committee</div> <div>Member, Compensation Committee</div> <div>Member, Related Party Transaction Committee</div>								
<div>EDUCATION/EXPERIENCE</div>	<div>Jose T. Sio is the Chairman of the Board of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, Atlas Consolidated Mining and Development Corporation, Far Eastern University, NLEX Corporation, and Ortigas Land Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master’s degree in Business Administration (MBA) from New York University, is a certified public accountant, and is a former Senior Partner of SyCip Gorres Velayo & Co. (SGV). He was voted CFO of the Year in 2009 by the Financial Executives of the Philippines. He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based publications.</div>							
<div>BOARD ATTENDANCE</div>	<div>100%; 7 of 7 meetings</div>							
<div>DATE OF FIRST APPOINTMENT</div>	<div>May 2005</div>							
<div>NO. OF YEARS ON THE BOARD</div>	<div>15 years</div>							
<div>DIRECTORSHIP/S IN OTHER REPORTING COMPANIES</div>	<table><tr><td>Belle Corporation</td><td>Director</td></tr><tr><td>China Banking Corporation</td><td>Director</td></tr><tr><td>Atlas Mining and Development Corporation</td><td>Director</td></tr></table>		Belle Corporation	Director	China Banking Corporation	Director	Atlas Mining and Development Corporation	Director
Belle Corporation	Director							
China Banking Corporation	Director							
Atlas Mining and Development Corporation	Director							

<div>TERESITA T. SY <i>Vice Chairperson of the Board</i></div>		
Chairperson, Compensation Committee Chairperson, Executive Committee		
<p>Teresita T. Sy is the Vice Chairperson of SMIC and Adviser to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of SM Retail, Inc. She also holds board positions in several companies within the SM Group. She is also the Chairperson of BDO Unibank, Inc. (“BDO”) and serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). She also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO). A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in retail merchandising, mall and real estate development, and banking and finance.</p>		
EDUCATION/EXPERIENCE		
BOARD ATTENDANCE	100%; 7 of 7 meetings	
DATE OF FIRST APPOINTMENT	May 1979	
NO. OF YEARS ON THE BOARD	41 years	
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	BDO Unibank, Inc.	

HENRY T. SY, JR.
Vice Chairman of the Board



EDUCATION/EXPERIENCE

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

BOARD ATTENDANCE	100%; 7 of 7 meetings	
DATE OF FIRST APPOINTMENT	May 1979	
NO. OF YEARS ON THE BOARD	41 years	
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	SM Prime Holdings, Inc.	Chairman of the Board

FREDERIC C. DYBUNCIO
President/CEO



Member, Executive Committee

EDUCATION/EXPERIENCE

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC and 2Go Group, Inc. He is the Vice Chairman of the Board of Atlas Consolidated Mining and Development Corporation and Director of Phoenix Petroleum Philippines, Inc. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong, and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and finished a Master's degree in Business Administration program at the Asian Institute of Management.

BOARD ATTENDANCE	100%; 7 of 7 meetings	
DATE OF FIRST APPOINTMENT	April 2017	
NO. OF YEARS ON THE BOARD	3 years	
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	2GO Group, Inc.	President/CEO/Director
	Phoenix Petroleum Philippines, Inc.	Director
	Atlas Mining and Development Corporation	Vice Chairman of the Board

HARLEY T. SY
Executive Director



Member, Executive Committee

EDUCATION/EXPERIENCE

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

BOARD ATTENDANCE 100%; 7 of 7 meetings

DATE OF FIRST APPOINTMENT May 1993
NO. OF YEARS ON THE BOARD 27 years

DIRECTORSHIP/S IN OTHER REPORTING COMPANIES China Banking Corporation Director

ALFREDO E. PASCUAL
Lead Independent Director



Chairman, Corporate Governance Committee
Chairman, Related Party Transactions Committee
Member, Audit Committee
Member, Compensation Committee
Member, Risk Management Committee

EDUCATION/EXPERIENCE

Alfredo E. Pascual is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 & 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President and Board Co-Chair. Before UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership (Infrastructure Development). At ADB, he had postings in India and Indonesia as well as board directorships in ADB's investee companies in China, India, and the Philippines. Earlier on, Mr. Pascual held executive positions in investment banking companies, e.g., First Metro Investment Corporation and was a finance professor at the Asian Institute of Management (AIM). Currently also, he is an independent director at other publicly-listed companies and a trustee at nonprofits and foundations. He finished MBA and BS Chemistry (*cum laude*) at UP.

BOARD ATTENDANCE 100%; 7 of 7 meetings

DATE OF FIRST APPOINTMENT April 2017
NO. OF YEARS ON THE BOARD 3 years

DIRECTORSHIP/S IN OTHER REPORTING COMPANIES Megawide Construction Corporation Independent Director
Asiabest Group International Inc. Independent Director
Concepcion Industrial Corporation Independent Director

TOMASA H. LIPANA*Independent Director*

Chairperson, Audit Committee
Member, Corporate Governance Committee

EDUCATION/EXPERIENCE

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

BOARD ATTENDANCE

100%; 7 of 7 meetings

**DATE OF
FIRST APPOINTMENT
NO. OF YEARS ON THE
BOARD**

April 2016

4 years

**DIRECTORSHIP/S
IN OTHER REPORTING
COMPANIES**

Currently no directorships in other reporting companies.

ROBERT G. VERGARA*Independent Director*

Chairperson, Risk Management Committee
Member, Corporate Governance Committee
Member, Related Party Transactions Committee

EDUCATION/EXPERIENCE

Robert G. Vergara is an Independent Director of SMIC. He was recently appointed as an Independent Director of Metro Pacific Hospital Holdings, Inc. (MPHHI). He is currently the President of Vergara Advisory Management, Inc. founded in May 2018. He also sits as an Independent Director of STI Holdings since July 27, 2017. From September 2010 to October 2016, he served as the President and General Manager and Vice-Chairman of the Board of Trustees of the Government Service Insurance System (GSIS). As President and General Manager of GSIS, Mr. Vergara also served as Vice Chairman and Director of National Reinsurance Corporation of the Philippines, Manila Hotel Corporation, and Member of the Board of Directors of Philippine Stock Exchange, Philippine Health Insurance Corporation, Philippine National Construction Corporation and Housing and Urban Development Coordinating Council. Before that, he was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Limited from October 2006 to September 2010. From 2002 to 2006, he was a Director of Lionhart (Hong Kong) Ltd. He was a Principal in Morgan Stanley Asia Ltd. from 1997-2001 and served as the Managing

	Director of IFM Asia Ltd. from 1990 to 1997. He obtained his Master in Business Administration from Harvard Graduate School of Business Administration. He graduated <i>magna cum laude</i> from Ateneo De Manila University with Bachelor of Science degrees in Management Engineering and Mathematics.
BOARD ATTENDANCE	100%; 4 of 4 meetings
DATE OF FIRST APPOINTMENT	April 2019
NO. OF YEARS ON THE BOARD	1 year
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Metro Pacific Hospital Holdings, Inc. Independent Director

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- ☐ Preliminary Information Statement
☒ Definitive Information Statement

2. Name of Registrant as specified in its charter: **SM INVESTMENTS CORPORATION**

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

4. SEC Identification Number: **0000016342**

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

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

7. Registrant's telephone number, including area code: **(632) 8857-0100 / fax (632) 8857-0132**

8. Date, time and place of the meeting of security holders: **June 24, 2020, 2:30 p.m.
The meeting will be conducted
virtually and participation will
be via remote communication.**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **June 2, 2020**

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

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

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

Yes ☒ No ☐

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

Philippine Stock Exchange

Common shares

PART I

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

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

- | | | |
|-------------------------------|---|--|
| (a) Date | : | June 24, 2020 |
| Time | : | 2:30 p.m. |
| Place | : | The meeting will be conducted virtually and participation will be via remote communication. |
| Mailing Address of Registrant | : | SM Investments Corporation
10 th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300 |

- (b) The approximate date on which the Information Statement will be sent or given to the stockholders is on June 2, 2020.

Statement that proxies are not solicited

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is May 24, 2020. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

SM Investments Corporation (SMIC or the "Company") respects the inherent rights of stockholders under the law. SMIC recognizes that all stockholders should be treated fairly and equally whether they be controlling, majority or minority, local or foreign.

Pursuant to Section 80 of the Revised Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code;
- (c) In case of merger or consolidation; and,
- (d) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

Procedure:

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

- (a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.
- (b) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;
- (c) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 85), the fair value thereof; and
- (d) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

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

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

- (a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.
- (b) No director of the Company has informed in writing that he intends to oppose any action to be taken by the Company at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(a) Voting Securities

As of April 30, 2020, the total number of common shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Out of the aforesaid outstanding common shares, 410,392,632 shares or 34.07% are held by foreigners. Each share is entitled to notice of and to one vote at the Annual Stockholders' Meeting.

(b) Record Date

The record date for purposes of determining the stockholders entitled to notice and to vote is May 24, 2020.

(c) Voting Rights

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

Stockholders may nominate directors in person and vote for nominees in person or by proxy.

Provided however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 23 of the Revised Corporation Code of the Philippines.

In light of the community quarantines imposed over various areas of the country and to ensure the safety and welfare of stockholders and everyone involved, this year's Annual Stockholders' Meeting will be conducted virtually on a livestreaming accessible to registered stockholders, the details of which can be found in www.sminvestments.com/asm2020. The Company will record the video of the proceedings and maintain a copy with the office of the Corporate Secretary.

For this year's Annual Stockholders' Meeting, SMIC will be allowing stockholders to participate in the meeting via remote communication and to vote *in absentia*.

Stockholders as of Record Date must inform the Corporate Secretary of their intention to participate in the meeting via remote communication and to vote *in absentia* by registering at asmregistration.sminvestment.com on or before **June 15, 2020 (Monday)**, subject to the verification and validation by the Corporate Secretary. Stockholders who will participate through remote communication or *in absentia* shall be deemed present for purposes of quorum for the meeting. Voting will be made through a secure online voting facility accessible only to verified stockholders to protect the integrity and secrecy of votes cast.

The detailed guidelines for participation and voting for this meeting are set forth in the "Guidelines for Participation via Remote Communication and Voting in Absentia" appended to this Information Statement.

Voting procedures are further detailed in Item 19.

(d) Security Ownership of Certain Record and Beneficial Owners as of April 30, 2020

As of April 30, 2020, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Teresita T. Sy (Director and Vice Chairperson) Forbes Park, Makati City	Same as the Record Owner	Filipino	85,440,508	7.09%
-do-	Harley T. Sy (Executive Director) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,604,771	7.27%
-do-	Henry T. Sy, Jr. (Director and Vice Chairman) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,503,008	7.26%
-do-	Hans T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,769,136	8.20%
-do-	Herbert T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,753,008	8.20%
-do-	Elizabeth T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	71,022,817	5.90%
-do-	PCD Nominee Corp. (Filipino)	Various clients ¹	Filipino	126,107,392	10.47%

-do- PCD Nominee Corp. Various clients ¹ Foreign 410,178,493 34.05%
(Non-Filipino)

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

Security Ownership of Management as of April 30, 2020

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership (D) direct / (I) indirect		Citizenship	Percent of Class
Common	Teresita T. Sy	P854,405,080	D	Filipino	7.09%
Common	Harley T. Sy	876,047,710	D	Filipino	7.27%
Common	Henry T. Sy, Jr.	875,030,080	D	Filipino	7.26%
Common	Jose T. Sio	210	D	Filipino	0.00%
Common	Frederic C. DyBuncio	100	D	Filipino	0.00%
Common	Tomasa H. Lipana	1,500	D	Filipino	0.00%
Common	Alfredo E. Pascual	100	D	Filipino	0.00%
Common	Robert G. Vergara	1,000	D	Filipino	0.00%
Common	Marcelo C. Fernando, Jr.	0		Filipino	0.00%
Common	Elizabeth Anne C. Uychaco	0		Filipino	0.00%
Common	Franklin C. Gomez	45,000	D	Filipino	0.00%
Common	Cecilia Reyes-Patricio	1,300	D	Filipino	0.00%
Common	Wellington L. Palmero	0		Filipino	0.00%
Common	Epitacio B. Borcelis, Jr.	1,980	D	Filipino	0.00%
Common	Hector B. Sarmiento	0		Filipino	0.00%
Common	Anastacio C. Balubar II	0		Filipino	0.00%
Common	Arthur A. Sy	0		Filipino	0.00%
Common	Elmer B. Serrano	0		Filipino	0.00%
		P2,605,534,060			21.62%

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

(a) Change in Control

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

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

ITEM 5. Directors and Executive Officers of the Registrant

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

<u>Officers</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
Chairman	Jose T. Sio	80	Filipino
Vice Chairperson	Teresita T. Sy	69	Filipino
Vice Chairman	Henry T. Sy, Jr.	66	Filipino
President & Chief Executive Officer	Frederic C. DyBuncio	60	Filipino
Executive Director	Harley T. Sy	60	Filipino
Lead Independent Director	Alfredo E. Pascual	71	Filipino
Independent Director	Tomasa H. Lipana	71	Filipino

Independent Director	Robert G. Vergara	59	Filipino
Treasurer and Senior Vice President - Group Treasury	Marcelo C. Fernando, Jr.	59	Filipino
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	64	Filipino
Senior Vice President - Finance	Franklin C. Gomez	50	Filipino
Senior Vice President - Corporate Tax Services	Cecilia Reyes-Patricio	62	Filipino
Senior Vice President - Legal and Assistant Corporate Secretary	Arthur A. Sy	50	Filipino
Chief Risk & Compliance Officer and Senior Vice President	Wellington Palmero	59	Filipino
Senior Vice President - Property Acquisition	Epitacio B. Borcelis, Jr.	66	Filipino
Senior Vice President - Data Analytics	Hector B. Sarmiento	48	Filipino
Vice President - Internal Audit	Anastacio C. Balubar II	49	Filipino
Corporate Secretary	Elmer B. Serrano	52	Filipino

MANAGEMENT

Board of Directors

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

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

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

Teresita T. Sy is the Vice Chairperson of SMIC and Adviser to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of SM Retail, Inc. She also holds board positions in several companies within the SM Group. She is also the Chairperson of BDO Unibank, Inc. ("BDO") and serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). She also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO). A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in retail merchandising, mall and real estate development, and banking and finance.

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

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC and 2Go Group, Inc. He is the Vice Chairman of the Board of Atlas Consolidated Mining and Development Corporation and Director of Phoenix Petroleum Philippines, Inc. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong, and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and finished a Master's degree in Business Administration program at Asian Institute of Management.

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

Alfredo E. Pascual* is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 & 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President and Board Co-Chair. Before UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership (Infrastructure Development). At ADB, he had postings in India and Indonesia as well as board directorships in ADB's investee companies in China, India, and the Philippines. Earlier on, Mr. Pascual held executive positions in investment banking companies e.g. First Metro Investment Corporation and was a finance professor at the Asian Institute of Management (AIM). Currently also, he is an independent director at other publicly-listed companies and a trustee at nonprofits and foundations. He finished MBA and BS Chemistry (*cum laude*) at UP.

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

Robert G. Vergara* is an Independent Director of SMIC. He was recently appointed as an Independent Director of Metro Pacific Hospital Holdings, Inc. (MPHHI). He is currently the

President of Vergara Advisory Management, Inc. founded in May 2018. He also sits as an Independent Director of STI Holdings since July 27, 2017. From September 2010 to October 2016, he served as the President and General Manager and Vice-Chairman of the Board of Trustees of the Government Service Insurance System (GSIS). As President and General Manager of GSIS, Mr. Vergara also served as Vice Chairman and Director of National Reinsurance Corporation of the Philippines, Manila Hotel Corporation, and Member of the Board of Directors of Philippine Stock Exchange, Philippine Health Insurance Corporation, Philippine National Construction Corporation and Housing and Urban Development Coordinating Council. Before that, he was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Limited from October 2006 to September 2010. From 2002 to 2006, he was a Director of Lionhart (Hong Kong) Ltd. He was a Principal in Morgan Stanley Asia Ltd. from 1997-2001 and served as the Managing Director of IFM Asia Ltd. from 1990 to 1997. He obtained his Master in Business Administration from Harvard Graduate School of Business Administration. He graduated magna cum laude from Ateneo De Manila University with Bachelor of Science degrees in Management Engineering and Mathematics.

** Independent director – the Company has complied with the Guidelines set forth by SRC (**Securities Regulation Code**) Rule 38 regarding the Nomination and Election of Independent Director. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

Period of Directorship

<u>Name</u>	<u>Period Served</u>
Jose T. Sio	2005 to present
Teresita T. Sy	1979 to present
Henry T. Sy, Jr.	1979 to present
Frederic C. DyBuncio	2017 to present
Harley T. Sy	1993 to present
Alfredo E. Pascual	2017 to present
Tomas H. Lipana	2016 to present
Robert G. Vergara	2019 to present

Directorships in Other Reporting Companies

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

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Jose T. Sio	China Banking Corporation	Director
	Belle Corporation	Director
	Atlas Consolidated Mining and Development Corporation	Director
	Far Eastern University	Director
Teresita T. Sy	BDO Unibank, Inc.	Chairperson
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman
Frederic C. DyBuncio	Atlas Consolidated Mining and Development Corporation	Vice Chairman
	2Go Group, Inc.	President and CEO
	Phoenix Petroleum Philippines, Inc.	Director

Harley T. Sy	China Banking Corporation	Director
<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Alfredo E. Pascual	Megawide Construction Corporation	Independent Director
	Asiabest Group International Inc.	Independent Director
	Concepcion Industrial Corporation	Independent Director
Robert G. Vergara	Metro Pacific Hospital Holdings, Inc.	Independent Director

Nomination of Directors

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

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

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

1. Tomasa H. Lipana
2. Alfredo E. Pascual
3. Robert G. Vergara

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

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

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

The procedure for nomination of directors shall be as follows:

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

- The Corporate Governance Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of Independent Directors and which list shall contain all the information about these nominees.
- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
- In case of resignation, disqualification or cessation of Independent Directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Corporate Governance Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.
- The Corporate Governance Committee is composed of the following members, all of whom are Independent Directors:
 1. Alfredo E. Pascual - Chairman (Independent Director)
 2. Tomasa H. Lipana - Member (Independent Director)
 3. Robert G. Vergara - Member (Independent Director)

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

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

Officers

Marcelo C. Fernando, Jr. is the Treasurer and Senior Vice President for Group Treasury of SMIC from July 2015. Prior to joining the company, he spent a combined 31 years in the banking industry, 29 of them with Citibank, N.A. His banking experience was mainly in the Markets business which was involved in the sales, trading and structuring of currencies, fixed income, money markets and commodities products and their derivatives. He was also responsible for liquidity management and balance sheet funding and gapping activities as Country Treasurer in the Philippines and during his posting in Thailand. Mr. Fernando also had regional responsibilities as Citibank's Markets Head for the ASEAN cluster which covered Indonesia, Malaysia, Philippines, Thailand and Vietnam. He obtained his Bachelor of Arts Degree in Economics from the University of the Philippines, Diliman (Cum Laude), and graduated with Distinction from the Masters in Business Management program of the Asian Institute of Management. Mr. Fernando is a fellow of the Institute of Corporate Directors.

Elizabeth Anne C. Uychaco is the Senior Vice President, Corporate Services, of SMIC. She is currently a Board Director and Vice Chairperson of Belle Corporation. She is also a Chairperson of the Board of The Neo Group. She is likewise a Board Director of Republic Glass Holdings Corp., BDO Life Assurance Co., Goldilocks Bakeshop, Inc., and ACE Hardware Philippines, Inc. She was formerly the Senior Vice President and Chief Marketing Officer of Philippine American Life and General Insurance Company and a Board Director of

Philam Call Center. Prior to that, she was the Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978. She obtained a Master's Degree in Business Economics from the University of Asia and the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo School of Business in 1992.

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

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

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

Epitacio B. Borcelis, Jr. is the Senior Vice President for Property Acquisition of SMIC. He has served as Corporate Counsel and is currently the Corporate Secretary of various companies under SM Group of Companies. He has worked with the SM Group for over forty-one (41) years and has varied experience in litigations, corporate housekeeping and property acquisitions. He is also a director of SM Development Corporation and other companies under the SM Group. He holds a Bachelor of Laws degree from the University of the East and a member of the Integrated Bar of the Philippines.

Hector B. Sarmiento is the Senior Vice President for Data Analytics in SMIC. Prior to joining SMIC he was Senior Vice President for Analytics and CRM for HSBC Philippines for 6.5 years, this included a regional assignment leading the HSBC Global Analytics Centre in Guangzhou, China for 2.5 years. Prior to HSBC, Mr. Sarmiento was Vice President for Decision Management in Citibank Philippines for 8.5 years. Before his banking experience he was in the Market Research industry for 5 years as the Director for Statistical Services for a local Philippine firm (Philippine Survey and Research Center or PSRC). Mr. Sarmiento obtained his Bachelor of Science Degree in Mathematics from the University of the Philippines, Diliman (Magna Cum Laude) and has a Master's Degree in Operations Research (minor in Statistics) from Oregon State University.

Anastacio C. Balubar II is the Vice President for Internal Audit of SMIC. He is a Certified Public Accountant with 29 years of international and multi-cultural audit experience, having worked in the Philippines and Dubai, UAE with various large conglomerates involved in key sectors such as airline, real estate/property development, hospitality and leisure, shopping malls, and retail amongst others. He managed overseas audit assignments in Asia, UK, USA, and Middle East. As a seasoned audit professional, he considers himself a catalyst for change and advocates transparent leadership, strong corporate governance, and business excellence. He graduated from Pamantasan Ng Lungsod Ng Maynila (University of the City of Manila)

with a Bachelor's Degree in Business Administration, Major in Accounting and obtained key certifications in various audit subjects as well as leadership and management masterclass.

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

Arthur A. Sy is the Assistant Corporate Secretary and Senior Vice President for Legal Department of SMIC. He is likewise the Assistant Corporate Secretary of SM Prime Holdings, Inc., Belle Corporation, Premium Leisure Corp., and 2Go Group, Inc. Further, he is currently the Corporate Secretary of various major companies within the SM Group of Companies and is also the Corporate Secretary of National University. Admitted to practice in the Philippines and the State of New York, Atty. Sy holds a Bachelor of Arts degree in Philosophy from the University of Santo Tomas and a Juris Doctor degree from the Ateneo de Manila University, School of Law.

Period of Officership

<u>Name</u>	<u>Office</u>	<u>Period Served</u>
Frederic C. DyBuncio	President and Chief Executive Officer	2017 to present
Marcelo C. Fernando, Jr.	Treasurer and Senior Vice President - Group Treasury	2015 to present
Elizabeth Anne C. Uychaco	Senior Vice President - Corporate Services	2009 to present
Franklin C. Gomez	Senior Vice President - Finance	2013 to present
Cecilia Reyes-Patricio	Senior Vice President - Corporate Tax Services	2010 to present
Wellington Palmero	Chief Risk & Compliance Officer and Senior Vice President	2017 to present
Epitacio B. Borcelis, Jr.	Senior Vice President - Property Acquisitions	2018 to present
Hector Sarmiento	Senior Vice President - Data Analytics	2018 to present
Anastacio C. Balubar II	Chief Audit Executive and Vice President	2017 to present
Elmer B. Serrano	Corporate Secretary	2014 to present
Arthur A. Sy	Assistant Corporate Secretary and Senior Vice President - Legal	2017 to present

Directorships in Other Reporting Companies

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

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

Nomination of Officers:

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

(b) Significant Employees

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

(c) Family Relationships

Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, and Harley T. Sy are siblings. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

(d) Certain Relationships and Related Transactions

There are no known related party transactions other than those described in Note 21 (Related Party Transactions) of the Notes to the Consolidated Financial Statements incorporated herein by reference.

The members of the Related Party Transactions Committee are:

- | | |
|-----------------------|-----------------------------------|
| 1. Alfredo E. Pascual | - Chairman (Independent Director) |
| 2. Robert G. Vergara | - Member (Independent Director) |
| 3. Jose T. Sio | - Member |

(e) Involvement in Legal Proceedings

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

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

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

ITEM 6. Compensation of Directors and Executive Officers

(a) Executive compensation

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

Name and Position

1. Harley T. Sy
Executive Director*
2. Frederic C. DyBuncio
President and Chief Executive Officer*
3. Elizabeth Anne C. Uychaco
Senior Vice President - Corporate Services*
4. Franklin C. Gomez
Senior Vice President - Finance*
5. Marcelo C. Fernando, Jr.
Treasurer and Senior Vice President - Group Treasury*

Summary Compensation Table (in million pesos)

	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
* President and four Most Highly Compensated Executive Officers	2020 (estimate)	136	23	6
	2019	124	21	5
	2018	100	17	4
All other Officers and Directors as a group unnamed	2020 (estimate)	401	67	17
	2019	365	61	15
	2018	323	54	13

b) Compensation of Directors

Standard Arrangement

The members of the Board of Directors receive a total of P100,000.00 per diem per Board meeting and a total of P20,000.00 per diem per Board Committee meeting.

Other arrangements

Aside from the aforementioned compensation, these officers do not receive any other form of remuneration.

The above-named executive officers have their respective letters of appointment indicating their job descriptions, functions, and obligations, among others.

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

The members of the Compensation Committee are:

1. Teresita T. Sy - Chairperson
2. Alfredo E. Pascual - Member (Independent Director)
3. Jose T. Sio - Member

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

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

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Ms. Julie Christine O. Mateo of SGV & Co. for the examination of the Company's financial statements starting 2016. Previously, the Company engaged Ms. Belinda Beng Hui, Mr. Ramon D. Dizon, Ms. Melinda G. Manto, and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2013 to 2015, 2008 to 2012, 2006 to 2007, and 2001 to 2005, respectively. Ms. Belinda Beng Hui was also another key audit partner (**OKAP**) of the Company for 7 years until 2015 for her involvement as an engagement partner in significant subsidiaries of the Company. In compliance with the local Code of Ethics which is based on the International Ethics Standards Board for Accountants Code of Ethics, an OKAP has to be rotated off after serving in that role for 7 years.

The aggregate fees of SGV & Co. for the audit of SMIC's annual financial statements in connection with the statutory and regulatory filings for the years ended December 31, 2019 and 2018 amounted to P2.3 million. Services rendered include the audit of yearend financial statements and supplementary schedules for submission to SEC and assistance in the preparation of annual income tax returns. The professional fees for non-audit services rendered by SGV & Co. amounted to P4.1 million in 2019 and P1.5 million in 2018.

SMIC did not engage any other firm for tax accounting, compliance, advice, planning, and any form of tax services covering the years 2019 and 2018.

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

The members of the Audit Committee are:

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

The members of the Risk Management Committee are:

- | | |
|-----------------------|-----------------------------------|
| 1. Robert G. Vergara | - Chairman (Independent Director) |
| 2. Alfredo E. Pascual | - Member (Independent Director) |
| 3. Jose T. Sio | - Member |

ITEM 8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

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

ITEM 10. Modification or Exchange of Securities

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

ITEM 11. Financial and Other Information

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

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

ITEM 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action will be presented for stockholders' approval at this year's annual meeting in respect of (1) the merger or consolidation of SMIC into or with any other person, or of any other person into or with SMIC, (2) acquisition by SMIC or any of its stockholders of securities of another person, (3) acquisition by SMIC of any other going business or of the assets thereof, (4) the sale or transfer of all or any substantial part of the assets of SMIC, or (5) liquidation or dissolution of SMIC.

ITEM 13. Acquisition or Disposition of Property

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

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

ITEM 14. Restatement of Accounts

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

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

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

At the annual meeting, stockholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees, and Management for the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, the significant

acts or transactions which are covered by appropriate disclosures with the Securities and Exchange Commission and Philippine Stock Exchange, Inc., including approval of the retained earning appropriation, authorization for Smart City Infrastructure & Development Corporation to use the “SM” Brand, among others.

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

There is no action to be taken with respect to any amendment of charter, by-laws or other documents required to be submitted to a vote of the stockholders.

ITEM 18. Other Proposed Action

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

ITEM 19. Voting Procedures

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

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

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

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

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

For this year’s Annual Stockholders’ Meeting, SMIC will be allowing stockholders to participate in the meeting via remote communication and to vote *in absentia*.

Stockholders as of Record Date who have successfully registered their intention to participate in the annual meeting via remote communication and to vote *in absentia*, duly verified and validated by the Company, shall be provided with unique log-in credentials to securely access the voting portal.

Stockholders and proxy holders can then cast their votes on specific matters for approval, including the election of directors.

Votes will then be automatically tabulated and counted at the close of voting for each agenda item during the meeting.

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

The detailed guidelines for participation and voting for this meeting are set forth in the "Guidelines for Participation via Remote Communication and Voting in Absentia" appended to this Information Statement.

Stockholders holding SMIC common shares as of May 24, 2020 are entitled to vote on the following matters which are also indicated in the Notice and Agenda included in this Information Statement:

1. Approval of the minutes of the previous annual meeting held on April 24, 2019

The stockholders' approval of the minutes of the meeting held on April 24, 2019 will be sought at this year's annual meeting. The following was the agenda of the said meeting.

- Call to order
- Certification of Notice and Quorum
- Approval of Minutes of the Annual Meeting of Stockholders held on April 25, 2018
- Annual Report for the Year 2018 (Open Forum)
- Amendment of the Second Article (Purpose) of the Articles of Incorporation (AOI)
- Amendment of the Fourth Article (Term) of the AOI
- Ratification of the acts of the Board of Directors and the Management from the date of the last annual stockholders' meeting up to the date of this meeting
- Election of directors for 2019-2020
- Appointment of External Auditors
- Other Matters
- Adjournment

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

2. Audited Financial Statements as of December 31, 2019

SMIC's Audited Financial Statements as of December 31, 2019 is attached as **Annex "A"** to this Information Statement for review of the stockholders. This will enable the stockholders to assess the financial performance of SMIC for the period covered by said financial statements. Stockholders' approval of the financial statement will be sought at this year's annual meeting.

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

3. Approval and ratification of acts of the Board of Directors and Management during their term of office

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

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

4. Election of Directors

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

Section 23 of the Revised Corporation Code of the Philippines states that "At all elections of directors or trustees, there must be present, either in person or by representative authorized to act by written proxy, the owners of a majority of the outstanding capital stock... entitled to vote".

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

5. Appointment of External Auditor

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

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


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

PART III

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasig City on May 19, 2020.

By: **SM INVESTMENTS CORPORATION**



ELMER B. SERRANO
Corporate Secretary

MANAGEMENT REPORT

A.i Audited Consolidated Financial Statements

The Company's audited consolidated financial statements for the year ended December 31, 2019 are incorporated herein by reference.

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

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

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

Calendar Years Ended December 31, 2019 and 2018

Results of Operation (amounts in billion pesos)

Accounts	12 / 31 / 2019	12 / 31 / 2018	% Change
Revenues	P 501.7	P 449.8	11.5%
Cost and Expenses	396.5	363.2	9.2%
Income from Operations	105.2	86.6	21.4%
Other Charges	18.5	12.4	48.5%
Provision for Income Tax	17.2	15.6	10.2%
Net Income After Tax	69.5	58.6	18.6%
Non-controlling Interests	24.9	21.5	15.8%
Net Income Attributable to Owners of the Parent	P 44.6	P 37.1	20.2%

SM Investments Corporation and Subsidiaries (the Group) reported P44.6 billion *Net Income Attributable to Owners of the Parent*, 20.2% higher than 2018, and P501.7 billion *Revenues*, 11.5% higher than 2018.

Income from Operations increased by 21.4% to P105.2 billion from P86.6 billion in 2018. *Operating Margin* and *Net Margin* is at 21.0% and 13.8%, respectively.

Merchandise Sales, which grew by 9.4% to P354.1 billion from P323.7 billion in 2018, accounts for 70.6% of total revenues in 2019. The increase is attributable to the opening of 2 *SM Stores*, 2 *SM Supermarkets*, 9 *Savemore* stores, 1 *SM Hypermarkets*, 8 *WalterMart* stores, 228 *Alfamart* stores, and 162 *Specialty* stores.

The sales contribution of Non-food and Food group is 48:52 in 2019 and 2018.

As of December 31, 2019, *SM Retail* had 2,799 stores nationwide, namely: 65 *SM Stores*, 58 *SM Supermarkets*, 201 *Savemore* stores, 52 *SM Hypermarkets*, 60 *WalterMart* stores, 754 *Alfamart* stores, and 1,609 *Specialty* stores.

Real Estate Sales increased by 23.7% to P44.5 billion from P36.0 billion in 2018 due primarily to higher construction accomplishments of launched projects which include *Cheerful*, *Green 2*, *Trees Ph3*, *Hope*, *Charm*, and *Bloom Residences* and continued increase in sales take-up of various projects, particularly those located in Mall of Asia and Makati Central Business

District. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 8.4% to P51.6 billion from P47.6 billion in 2018. The increase is primarily due to rental rate escalations and expansion of leasable areas. Excluding the new malls, same-mall rental growth is at 7%. Rentals from commercial operations also increased due to the full year revenue of ThreeE-Com Center and SM Southmall South Tower which opened in 2018.

As of December 31, 2019, *SM Prime* had 74 malls in the Philippines with total GFA of 8.5 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 35.9% to P26.0 billion from P19.2 billion in 2018 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees increased by 15.2% to P7.3 billion from P6.4 billion in 2018.

Dividend Income increased by 13.9% to P480.5 million from P421.9 in 2018 million due to higher dividends received from investees in 2019.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 6.3% to P9.9 billion from P9.3 billion in 2018.

Operating Expenses increased by 6.4% to P113.3 billion from P106.4 billion in 2018 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 48.5% to P18.5 billion from P12.4 billion in 2018. *Interest Expense* increased by 15.8% to P19.2 billion from P16.6 billion in 2018 due mainly to new debt availments for working capital and capital expenditure requirements. An *Impairment Loss on Investments* amounting to P4.0 billion was recognized in 2019 relative to the impairment test done on the Group's investments. *Interest Income* increased by 3.4% to P3.9 billion from P3.8 billion in 2018 while *Foreign Exchange Gain (Loss) - net* increased by 407.8% to a gain of P561.7 million from a loss of P182.5 million in 2018. The PHP to USD foreign exchange rate amounted to PHP50.64 : USD1.00 in 2019 and PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 10.2% to P17.2 billion from P15.6 billion in 2018 due mainly to increase in taxable income. The effective income tax rate is 19.8% in 2019 and 21.0% in 2018.

Non-controlling interests increased by 15.8% to P24.9 billion from P21.5 billion in 2018 due mainly to the increase in net income of partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2019	12 / 31 / 2018	% Change
Current Assets	P 248.4	P 241.7	2.7%
Noncurrent Assets	895.8	818.9	9.4%
Total Assets	P 1,144.2	P 1,060.6	7.9%
Current Liabilities	P 196.7	P 212.7	-7.5%
Noncurrent Liabilities	411.3	355.6	15.6%
Total Liabilities	608.0	568.3	7.0%
Total Equity	536.2	492.3	8.9%
Total Liabilities and Equity	P 1,144.2	P 1,060.6	7.9%

Total Assets increased by 7.9% to P1,144.2 billion from P1,060.6 billion in 2018. Likewise, total Liabilities increased by 7.0% to P608.0 billion from P568.3 billion in 2018.

Current Assets

Current Assets increased by 2.7% to P248.4 billion from P241.7 billion in 2018.

Cash and Cash Equivalents decreased by 3.9% to P76.2 billion from P79.3 billion in 2018 due mainly to payments for investments and capital expenditures, net of proceeds from loans.

Merchandise Inventories increased by 4.2% to P33.2 billion from P31.8 billion in 2018 due mainly to store openings in 2019.

Receivables and Contract Assets increased by 58.8% to P53.6 billion from P33.8 billion in 2018 due mainly to the 69.6% increase in receivables from real estate buyers resulting from the high take-up of residential projects of SM Prime.

Other Current Assets increased by 20.4% to P84.7 billion from P70.3 billion in 2018 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments.

Noncurrent Assets

Noncurrent Assets increased by 9.4% to P895.8 billion from P818.9 billion in 2018.

Financial assets decreased by 9.3% to P24.2 billion from P26.7 billion due mainly to the disposal of certain financial assets.

Investments in Associate Companies and Joint Ventures increased by 8.2% to P281.0 billion from P259.8 billion in 2018. The increase mainly represents equity in net earnings of associates and investments in new associates, partly offset by dividends received in 2019.

Property and Equipment increased by 6.5% to P24.7 billion from P23.2 billion due mainly to new stores in 2019.

Investment Properties increased by 9.3% to P338.1 billion from P309.3 billion in 2018 due mainly to ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives.

Land and Development increased by 39.0% to P74.9 billion from P53.9 billion in 2018 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets decreased by 26.9% to P84.4 billion from P115.4 billion in 2018. The decrease is attributable to the reclassification of land use rights to *Right-of-Use (ROU)* Assets related to the adoption of *PFRS 16, Leases* and the application of deposits to various land purchases during the year.

Current Liabilities

Current Liabilities decreased by 7.5% to P196.7 billion from P212.7 billion in 2018.

Bank Loans decreased by 0.9% to P18.7 billion from P18.9 billion in 2018 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 13.4% to P141.5 billion from P124.8 billion in 2018 mainly from higher business volume.

Income Tax Payable decreased by 10.1% to P3.3 billion from P3.6 billion in 2018 due mainly to higher tax payments and lower income tax for the period.

Current Portion of Long-term Debt decreased by 52.7% to P29.1 billion from P61.5 billion in 2018 due mainly to payments during the period

Dividends Payable increased by 7.6% to P4.2 billion from P3.9 billion in 2018. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 15.6% to P411.3 billion from P355.6 billion in 2018.

Long-term Debt - Net of Current Portion increased by 7.1% to P327.4 billion from P305.6 billion in 2018 due mainly to new debt availments, partly offset by payments.

Lease Liabilities - Net of Current Portion amounting to P27.6 billion is the initial measurement of future lease payments discounted at present value, net of amortization for the year. A corresponding *Right-of-use (ROU) Assets - Net* of P37.7 billion was recognized, net of depreciation and accrued rent that was previously set up under PAS 17. These two accounts were recognized and presented separately in the consolidated balance sheet relative to the Group's adoption of *PFRS 16, Leases*, effective January 1, 2019.

Tenants' Deposits and Others increased by 13.2% to P46.7 billion from P41.3 billion in 2018 due mainly to new malls and office buildings and increase in deposits from residential buyers.

Equity

Total *Equity* increased by 8.9% to P536.2 billion from P492.3 billion in 2018.

Equity Attributable to Owners of the Parent increased by 8.3% to P382.6 billion from P353.4 billion in 2018. This increase resulted mainly from the (a) P35.3 billion net increase in Retained Earnings due mainly to the P44.6 billion *Net Income Attributable to Owners of the*

Parent, net of P11.0 billion dividend declaration in 2019, and (b) *Net Unrealized Gain on Financial Assets at Fair Value* which increased by 22.6% to P14.4 billion from P11.7 billion in 2018 due mainly to the appreciation in market value of certain investments of the Group. These were partially offset by the (a) *Re-measurement loss on defined benefit asset/obligation* which increased by 318.4% to P8.6 billion from P2.1 billion in 2018 as a result of the valuation of the Group's retirement plan, (b) *Net Fair value Changes on Cash Flow Hedges* which decreased to a loss of P1,406.0 million in 2019 from a gain of P62.4 million in 2018, and (c) *Cumulative Translation Adjustment (CTA)* which decreased to P1.3 billion from P2.0 billion in 2018. The latter is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates.

Non-controlling Interests increased by 10.5% to P153.5 billion from P138.9 billion in 2018 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

The key financial ratios of the Group follow:

Accounts	12 / 31/ 2019	12 / 31/ 2018
Current Ratio	1.3	1.1
Asset to Equity	2.1	2.2
Debt - Equity Ratios:		
On Gross Basis	41 : 59	44 : 56
On Net Basis	36 : 64	36 : 64
Revenue Growth	11.5%	13.0%
Net Margin	13.8%	13.0%
Net Income Growth	20.2%	12.6%
Return on Equity	11.9%	10.9%
EBITDA (<i>In Billions of Pesos</i>)	124.5B	101.8B
Interest Cover	6.5x	6.1x

Current Ratio increased to 1.3 from 1.1 in 2018 due mainly to the 2.7% increase in *Current Assets* vs 7.5% decrease in *Current Liabilities*.

Asset to Equity Ratio decreased to 2.1 from 2.2 in 2018 due mainly to the higher increase in *Total Equity* of 8.9% compared to only 7.9% of *Total Assets*.

Gross Debt - Equity Ratio decreased to 41:59 in 2019 due mainly to the 2.8% decrease in gross loans. *Net Debt - Equity Ratio* remained at 36:64 in both periods resulting mainly from the 27.5% decrease in cash and cash equivalents.

Revenue Growth decreased to 11.5% from 13.0% in 2018 due mainly to higher growth of *Sales* and *Rent* in 2018.

Net Income Growth increased to 20.2% from 12.6% in 2018 and *Net Margin* increased to 13.8% from 13.0% in 2018 due mainly to lower growth of cost and expenses in 2019.

Return on equity increased to 11.9% from 10.9% in 2018 due mainly to the higher net income growth in 2019.

EBITDA increased by 22.4% to P124.5 billion from P101.8 billion in 2018 due mainly to the 21.4% increase in income from operations and 27.8% increase in depreciation.

Interest Cover increased to 6.5x from 6.1x in 2018 due to the 22.4% increase in EBITDA with only 15.8% increase in *Interest Expense*.

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

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

Expansion Plans / Prospects in 2020

The Parent Company as well as its major business segments, Property and Retail, have appropriated certain portions of Retained Earnings to cover expansion plans which include corporate projects, expansions, new development projects, land acquisitions and/or investment in new business ventures.

These projects would be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

Calendar Years Ended December 31, 2018 and 2017

Results of Operation

(amounts in billion pesos)

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

SM Investments Corporation and Subsidiaries (the Group) reported P37.1 billion *Net Income Attributable to Owners of the Parent*, 12.6% higher than 2017, and P449.8 billion *Revenue*, 13.0% higher than 2017.

Income from Operations increased by 14.2% to P86.6 billion from P75.8 billion in 2017. *Operating Margin* and *Net Margin* is at 19.3% and 13.0%, respectively.

Merchandise Sales, which grew by 12.2% to P323.7 billion from P288.5 billion in 2017, accounts for 72.0% of total revenues in 2018. The increase is attributable to the opening of 4 *SM Stores*, 4 *SM Supermarkets*, 15 *Savemore* stores, 6 *SM Hypermarkets*, 7 *WalterMart* stores, 178 *Alfamart* stores, and 121 *Specialty* stores.

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

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

Real Estate Sales increased by 21.6% to P36.0 billion from P29.6 billion in 2017 due primarily to higher construction accomplishments of projects launched from 2015 to 2017 namely, *Shore 2*, *Shore 3*, *Coast*, and *S Residences* in Pasay, *Fame Residences* in Mandaluyong, and *Spring Residences* in Parañaque and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Filipino Workers' remittances, and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.0% to P47.6 billion from P42.1 billion in 2017. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2017 and 2018, namely, *SM CDO Downtown Premier*, *SM City Puerto Princesa*, *SM Center Tuguegarao Downtown*, *SM City Urdaneta Central*, *SM City Telabastagan*, *SM City Legazpi*, *SM Center Ormoc*, and *S Maison* at the Conrad Manila. Excluding the new malls and expansions, same-store rental growth is at 8%. Rentals from commercial operations also increased due to the opening of ThreeE-Com Center and SM Southmall South Tower in 2018.

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

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 15.2% to P19.2 billion from P16.6 billion in 2017 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees, which is computed based on percentage of sales, increased by 9.6% to P6.4 billion from P5.8 billion in 2017.

Gain on Sale of Financial Assets - net decreased by 98.8% to P1.3 million from P110.2 million in 2017 resulting primarily from the disposal of certain investments in 2017.

Dividend Income decreased by 14.9% to P421.9 million from P495.6 in 2017 million due to lower dividends received from investees in 2018.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 14.0% to P9.3 billion from P8.1 billion in 2017.

Operating Expenses increased by 15.2% to P106.4 billion from P92.3 billion in 2017 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 18.2% to P12.4 billion from P10.5 billion in 2017. *Interest Expense* increased by 6.4% to P16.6 billion from P15.6 billion in 2017 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* decreased by 6.2% to P3.8 billion from P4.0 billion in 2017 due mainly to lower balance of time deposits in 2018. *Gain on Fair Value Changes on Derivatives - net* increased by 53.5% to P454.9 million from P296.3 million in 2017 resulting mainly from the mark-to-market valuation of outstanding forward swap transactions in 2018. *Foreign Exchange Gain (Loss) - net* decreased by 126.1% to a loss of P182.5 million from a gain of P698.7 million in 2017. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.93 : USD1.00 in 2017 to PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 13.1% to P15.6 billion from P13.8 billion in 2017 due mainly to increase in taxable income. The effective income tax rate is 21.0% in 2018 and 21.1% in 2017.

Non-controlling interests increased by 15.5% to P21.5 billion from P18.6 billion in 2017 due to the increase in net income of partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

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

Total *Assets* increased by 10.5% to P1,060.6 billion from P960.1 billion in 2017. Likewise, total *Liabilities* increased by 12.3% to P568.3 billion from P506.3 billion in 2017.

Current Assets

Current Assets increased by 13.7% to P241.7 billion from P212.5 billion in 2017.

Cash and Cash Equivalents increased by 6.7% to P79.3 billion from P74.3 billion in 2017 due mainly to net proceeds from loans partially offset by investments and capital expenditures.

Financial Assets decreased by 52.6% to P0.6 billion from P1.3 billion in 2017 due mainly to maturity of certain investments in bonds in 2018.

Merchandise Inventories increased by 14.6% to P31.8 billion from P27.8 billion in 2017. Bulk of the increase came from the Specialty group.

Other Current Assets increased by 10.8% to P70.3 billion from P63.5 billion in 2017 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments and receivable from banks.

Noncurrent Assets

Noncurrent Assets increased by 9.5% to P818.9 billion from P747.6 billion in 2017.

Investments in Associate Companies and Joint Ventures increased by 7.3% to P259.8 billion from P242.1 billion in 2017. The increase mainly represents equity in net earnings of associates in 2018 and investments in new associates, partly offset by dividends received in 2018.

Time Deposits decreased by 91.0% to P2.4 billion from P26.7 billion in 2017 due mainly to reclassification of maturing time deposits to current. On the other hand, the current portion of *Time Deposits* increased by 95.2% to P25.8 billion from P13.2 billion in 2017 due mainly to reclassification from non-current and new investments in time deposits coming from proceeds from matured investments in bonds, partly offset by matured time deposits that were used to pay off loans.

Property and Equipment increased by 8.7% to P23.2 billion from P21.3 billion due mainly to new stores in 2018.

Investment Properties increased by 7.0% to P309.3 billion from P289.0 billion in 2017 due mainly to ongoing new mall projects and commercial building construction, including the FourE-Com Center as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives.

Land and Development increased by 34.2% to P53.9 billion from P40.2 billion in 2017 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 54.8% to P115.4 billion from P74.6 billion in 2017. The increase mainly represents higher receivable from real estate buyers and bonds and deposits.

Current Liabilities

Current Liabilities increased by 20.9% to P212.7 billion from P175.9 billion in 2017.

Bank Loans decreased by 21.9% to P18.9 billion from P24.2 billion in 2017 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 17.1% to P124.8 billion from P106.6 billion in 2017 mainly from higher business volume.

Income Tax Payable increased by 93.3% to P3.6 billion from P1.9 billion in 2017 due mainly to higher income tax due.

Current Portion of Long-term Debt increased by 52.6% to P61.5 billion from P40.3 billion in 2017 due mainly to reclassification of maturing loans.

Dividends Payable increased by 32.9% to P3.9 billion from P2.9 billion in 2017. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 7.6% to P355.6 billion from P330.4 billion in 2017.

Long-term Debt - Net of Current Portion increased by 4.4% to P305.6 billion from P292.6 billion in 2017 due mainly to new debt availments, partly offset by payments.

Tenants' Deposits and Others increased by 38.4% to P41.3 billion from P29.8 billion in 2017 due mainly to new malls and office buildings and increase in customers' deposits from residential buyers.

Equity

Total *Equity* increased by 8.5 % to P492.3 billion from P453.8 billion in 2017.

Equity Attributable to Owners of the Parent increased by 7.7% to P353.4 billion from P328.1 billion in 2017. This increase resulted mainly from the (a) P30.1 billion net increase in Retained Earnings due to the P37.1 billion *Net Income Attributable to Owners of the Parent*, P2.9 billion effect from the adoption of PFRS 9, *Financial Instruments*, less P9.9 billion dividend declaration during the year, and (b) *Cumulative Translation Adjustment (CTA)* which increased by 48.1% to P2.1 billion from P1.4 billion in 2017. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates. These were partially offset by (a) *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by

23.3% to P11.7 billion from P15.3 billion in 2017 due mainly to the depreciation in market value of certain investments of the Group, and (b) *Re-measurement loss on defined benefit asset/obligation* which increased by 194.2% to P2.1 billion from P0.7 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.5% to P138.9 billion from P125.7 billion in 2017 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

The key financial ratios of the Group follow:

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

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

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

Gross debt-equity ratio remained at 52:48 in 2018 and 2017 but Net debt-equity ratio slid to 44:56 from 43:57 in 2017 due mainly to higher increase in net debt of 14.9% from P243.7 billion to P280.1 billion in 2018.

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

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

EBITDA increased by 13.2% to P101.8 billion from P89.9 billion in 2017 due mainly to the 14.2% increase in income from operations.

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

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

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

Expansion Plans / Prospects for the Future

Property Group

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

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

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

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

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

Retail Group

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

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

Calendar Years Ended December 31, 2017 and 2016

Results of Operation

(amounts in billion pesos)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position
(amounts in billion pesos)

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

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

Current Assets

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

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

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

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

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

Noncurrent Assets

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

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

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

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

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

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

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

Current Liabilities

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

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

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

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

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

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

Noncurrent Liabilities

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

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

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

Equity

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

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

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

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

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

Key Performance Indicators

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

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

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

Asset to equity ratio remained at 2.1 in both periods.

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

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

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

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

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

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

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

Expansion Plans / Prospects for the Future

Property Group

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

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

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

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

Retail Group

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

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

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

Business Development

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

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

Business of Issuer

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

Non-Food Retail

"The SM Store", in operation since 1958, is SM Retail's department store format, a leading player in the Philippines and an anchor tenant in SM malls nationwide. The SM Store serves a wide customer base and is committed to providing an extensive range of up to date fashion.

SM Retail currently has 65 department stores located in Metro Manila and key provincial cities. Of these, 60 stores are based inside SM malls and five stores in Makati, Cubao, Quiapo, Harrison and Delgado are stand-alone stores.

In 2019, two new stores were opened in Metro Manila and Olongapo. These new stores contributed an additional 8,575 sqm, bringing the gross selling area (GSA) of The SM Store to 807,854 sqm.

Specialty Stores

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

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

As of December 31, 2019, there are 1,609 specialty stores in operation.

Food Retail

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

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985. There are currently 58 stores nationwide totaling to 361,285 sqm of GSA with each store carrying 30,000 to 35,000 SKUs. In 2019, it opened two stores in Metro Manila and Olongapo.

SM Hypermarket is a large format food retailer store with both stand-alone and in-mall locations. It has been in operation since 2001 and provides a shopping experience that combines the features of a supermarket with those of a department store. There are currently 52 stores in operation totaling 336,867 sqm of GSA with each store carrying over 35,000 SKUs. In 2019, SM Hypermarket opened one store in Metro Manila.

Savemore is a mid-sized format introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a neighborhood format, providing food and grocery items in residential locations with extended opening hours. Among SM Retail's Food formats, Savemore has the largest footprint with 543,815 sqm of GSA across 201 stores as of end-2019. These stores carry 20,000 to 25,000 SKUs. In 2019, they opened 9 stores nationwide.

Waltermart is a mid-sized format that provides food and non-food shopping as an anchor tenant in Waltermart community malls, located primarily in Luzon. SM Retail acquired a controlling stake in Waltermart in 2013. It has 60 Department Stores and Supermarkets as at end-2019, with an aggregate GSA of 164,361 sqm. In 2019, they opened 5 department stores and 3 supermarkets in Subic, Balanga, Batangas, Tanauan and Metro Manila.

Alfamart is a small format minimart grocery store situated primarily in residential neighborhoods and offering a range of essential groceries with supermarket pricing. It is a joint venture with Indonesia-based minimart operator, PT Sumber Alfaria Trijaya Tbk, which started operations in the Philippines in 2014. Alfamart Philippines has a network of 754 stores as of end-2019, mostly located outside Metro Manila, each carrying 2,500 to 3,000 SKUs. In 2019, they opened 228 new stores within Metro Manila, Batangas, Rizal, Bulacan, Pampanga, Nueva Ecija and Laguna.

Property

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

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls. Its main sources of revenue include rental income from leased shopping spaces, cinema tickets sales and other amusement income. SM Prime has 74 malls in the Philippines with a total gross floor area (GFA) of 8.5 million sqm and seven shopping malls in China with a total GFA of 1.3 million sqm.

In 2019, SM Prime's mall business unit opened 2 new malls in the Philippines namely, SM Olongapo Central and SM Center Dagupan. These new malls added more than 100,000 sqm of GFA.

Residential

SM Prime's residential development arm, **SM Development Corporation** ("SMDC"), derives development revenues largely from the sales of condominium units. As of December 31, 2019, the primary residential business unit had 49 residential projects in the market worth PHP482 billion.

SMDC's primary residential business unit typically launches 15,000 to 20,000 units annually, including high-rise, mid-rise and single detached housing. Projects are located in Metro Manila and key provincial cities.

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

Commercial

SM Prime's commercial properties business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila. As of December 31, 2019, the Company has twelve office buildings with a total GFA of more than 695,000 sqm. These are located in the cities of Quezon, Pasay, Makati, Taguig and Las Pinas. Their assets outside Metro Manila are located in Clark in Pampanga, Taytay in Rizal, and Sta. Rosa in Laguna. SM Prime is scheduled to open FourE-com Center in Mall of Asia Complex, Pasay City in 2020.

Hotels and Convention Centers

SM Prime's hotel and convention centers business unit manages eight hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City, Pasay City, Iloilo City and Quezon City with more than 1,900 rooms. It also operates four convention centers located in the Mall of Asia Complex in Pasay City, SM Lanang Premier in Davao City, SM Aura in Taguig City and SM City Bacolod in Bacolod City, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu. The Company is scheduled to launch Park Inn by Radisson in Bacolod, SMX Clark in Pampanga and Olongapo City Convention Center in Zambales in 2020.

Financial Services

BDO Unibank, Inc. ("BDO") is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including lending, deposit-taking, foreign exchange, brokering, trust and investments, credit cards, corporate cash management and remittances. Through its local subsidiaries, it offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services. BDO has one of the largest distribution networks of over 1,400 operating branches and more than 4,400 ATMs nationwide.

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

As at end-2019, BDO had a strong balance sheet with total resources of PHP3.2 trillion.

SMIC has an effective ownership of 45% in BDO.

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

bank services. China Bank services its customers through its 631 bank branches with 1,002 ATMs nationwide.

The Bank boasts a strong balance sheet, with total resources at PHP962 billion as at end-2019.

SMIC has an effective stake of 23% in China Bank.

Equity Investments

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

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

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

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

SMIC’s effective ownership in Belle is 26%.

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

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

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

SMIC effectively owns 34% of Atlas Mining.

Neo Office Ph consist of seven commercial buildings located within the largest and only PEZA certified IT park in Bonifacio Global City, Metro Manila. Its tenant base includes top tier local and multinational companies. Its gross lot areas is 23,300 sqm and gross leasable area is 268,000 sqm. The occupancy rate as of December 31, 2019 was 99.10%.

SMIC effectively owns 90% of the first 5 buildings and 34% of the latest 2 buildings in the portfolio.

2GO Group, Inc. (“2GO”) is the country’s largest integrated supply chain operator whose businesses include shipping, freight forwarding, warehousing and express delivery services.

As of 2019, SMIC holds 30.5% effective ownership of 2GO.

Philippine Urban Living Solutions (“PULS”) is a dormitory developer and operator specializing in the development of rental housing communities under the MyTown brand. It provides

affordable living spaces to young urban professionals within walking distance of the central business districts of Metro Manila. It currently has 16 buildings in operation with 2 more buildings under development.

SMIC effectively owns 63.3% in PULS.

CityMall Commercial Centers Inc. (“CityMalls”) is a mall developer and operator that specializes in developing community malls in second and third cities across the Philippines. SMIC acquired a 34% stake in CityMalls in 2014 with the balance owned by Double Dragon Properties Corporation.

Goldilocks is the largest bakeshop chain in the Philippines with over 700 stores and selected operations overseas. Now on its 53rd year, Goldilocks continues to provide its customers with a wide array of baked goods and home cooked food.

SMIC effectively owns 34% in Goldilocks.

GrabPay JV is a strategic partnership combining the strength of Grab’s user base and tech platform with SM’s nationwide retail and banking portfolio. The partnership will collaborate on: universal acceptance of the GrabPay wallet as a payment option, offer greater convenience by expanding wallet top-up channels through SM subsidiaries and affiliates, and enhance GrabPay user experience in SM Retail subsidiaries and affiliates.

SM has a 35% participation in the JV.

A.v Company’s Directors and Executive Officers

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

A.vi Market Price, Stockholder and Dividend Information

Market Information

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

	<u>2020</u>				<u>2019</u>				<u>2018</u>			
Stock Prices		<u>High</u>		<u>Low</u>		<u>High</u>		<u>Low</u>		<u>High</u>		<u>Low</u>
1 st Quarter	₱	1080.0	₱	509.5	₱	1,015.0	₱	915.5	₱	1,140.0	₱	912.5
2 nd Quarter		--		--		975.0		884.5		988.0		837.0
3rd Quarter		--		--		1,048.0		950.0		990.0		862.0
4 th Quarter		--		--		1,091.0		973.0		980.0		850.0

As of June 1, 2020, the closing price of the Company’s shares of stock is ₱920.00/share.

Stockholder and Dividend Information

The number of stockholders of record as of April 30, 2020 was 1,260. As of December 31, 2019, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P237.3 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

The cash dividends pertaining to the 2019 earnings will be discussed and determined at the next Board Meeting on June 24, 2020.

On April 24, 2019, the BOD approved the declaration of cash dividends of 91.2% of the par value or P9.12 per share for a total amount of P10,985.8 million in favor of stockholders on record as at May 9, 2019. This was paid on May 23, 2019.

On April 25, 2018, the BOD approved the declaration of cash dividends of 82.0% of the par value or P8.20 per share for a total amount of P9,877.6 million in favor of stockholders on record as at May 10, 2018. This was paid on May 24, 2018.

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

The top 20 stockholders as of April 30, 2020 are as follows:

	<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
1	PCD Nominee Corp (Non-Filipino)	410,178,493	34.05%
2	PCD Nominee (Filipino)	126,107,392	10.47%
3	Hans T. Sy	98,769,136	8.20%
4	Herbert T. Sy	98,753,008	8.20%
5	Harley Sy	87,604,771	7.27%
6	Henry T. Sy, Jr.	87,503,008	7.26%
7	Teresita T. Sy	85,440,508	7.09%
8	Elizabeth T. Sy	71,022,817	5.90%
9	Syntrix Holdings, Inc.	46,875,000	3.89%
10	Sysmart Corporation	28,966,752	2.40%
11	Tansmart Holdings, Inc.	27,500,000	2.28%
12	Henry Sy Foundation, Inc.	22,500,000	1.87%
13	Felicidad T. Sy Foundation, Inc.	11,250,000	0.93%
14	Susana Fong	452,998	0.04%
15	Value Plus, Inc.	152,119	0.01%
16	SM Prime Holdings, Inc.	146,104	0.01%
17	Belle Corporation	48,877	0.00%
18	Bernadette S. Go	39,402	0.00%

19	Hector Yap Dimacali	39,102	0.00%
20	Hans Sy Fao Wonderfoods Corp.	39,102	0.00%

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

- (1) On June 10, 2014, SMIC issued US\$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US\$1.749 million.
- (2) On October 17, 2012, SMIC issued US\$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$2.5 million. SMIC retired/cancelled US\$3.6 million in 2018. The bonds which has an outstanding balance of US\$496.4 million as at December 31, 2018 matured in October 2019.

There is no recent acquisition, business combination or other reorganization that has an effect on the amount and percentage of present holdings of the Company's common equity.

A.vii Corporate Governance

Corporate Governance

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

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

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

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

The Company ensures that the Board and key officers are kept abreast of governance related developments through regular education programs. SMIC also facilitates annual training programs for the directors and officers of its subsidiaries and affiliates within the SM Group of Companies. These Group-wide training programs are conducted by providers accredited by the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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


The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with Philippine Financial Reporting Standards and for such internal controls as management determines is necessary, to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

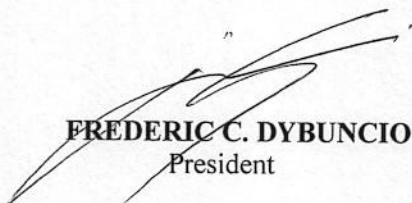
The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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



JOSE T. SIO
Chairman of the Board



FREDERIC C. DYBUNCIO
President



MARCELO C. FERNANDO, JR.
Treasurer


Signed this 28th day of February 2020

REPUBLIC OF THE PHILIPPINES)
PASIG CITY)

SUBSCRIBED AND SWORN to before this FEB 28 2020 at PASIG CITY, affiants
exhibiting to me their Taxpayer Identification Number ID, as follows:

NAMES	TIN
JOSE T. SIO	103-433-285
FREDERIC C. DYBUNCIO	103-192-854
MARCELO C. FERNANDO, JR.	106-904-419

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SERIES of 2020


GINO PAULO D. UY
Appointment No. 170 (2019-2020)
Notary Public
Pasig City, Marikina and San Juan
until December 31, 2020
Adm. Reg. No. 81007
33rd Floor, The Court Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR License No. 0001810, 01-02-20; Pasig City
IBP License No. 0091901, 01-02-20; REM
MCLE Compliance No. VI-0011986; 4.14.22

SM Investments Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018
and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SM Investments Corporation

Opinion

We have audited the consolidated financial statements of SM Investments Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, 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, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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



Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and adoption involves significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱32,020.3 million and ₱24,781.2 million, respectively, as at January 1, 2019 and the recognition of depreciation expense and interest expense of ₱3,587.9 million and ₱1,676.0 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Group are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by tracing the lease agreements to the master lease schedule of the Group.

On a test basis, we inspected lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculations prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Recoverability of Goodwill

As at December 31, 2019, the Group reported ₱17,366.8 million goodwill attributable mainly to SM Prime Holdings, Inc., Supervalu, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and



assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 16 to the consolidated financial statements.

Audit Response

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

Accounting for Investments in Associate Companies

As at December 31, 2019, the Group's investments in associate companies amounted to P272,671.6 million, representing 30.4% and 23.8% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

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

Audit Response

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



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

Real Estate Revenue Recognition

The Group applies PFRS 15, *Revenue from Contracts with Customers*, in recognizing revenue from sale of real estate units. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining revenue from real estate sale; (5) determination of the actual costs incurred as cost of real estate sold; and (6) recognition of costs to obtain a contract.

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

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

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

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

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

The disclosures related to the Group's revenue recognition are included in Note 3 to the consolidated financial statements.



Audit Response

We obtained an understanding of the Group's revenue recognition processes and tested relevant controls.

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

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

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

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

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

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



Existence and Completeness of Merchandise Inventories

As at December 31, 2019, the merchandise inventories of certain subsidiaries of the Group amounted to ₱33,157.6 million, representing 13.4% and 2.9% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

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

Audit Response

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, 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, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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



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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

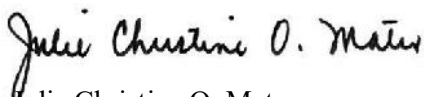
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-3 (Group A),

August 16, 2018, valid until August 15, 2021

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125278, January 7, 2020, Makati City

February 28, 2020



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

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	₱76,213,774	₱79,313,215
Time deposits (Notes 8 and 28)	30,488	25,842,829
Financial assets (Notes 9 and 28)	659,077	639,316
Receivables and contract assets (Notes 10, 28 and 29)	53,617,200	33,755,192
Merchandise inventories - at cost (Note 22)	33,157,622	31,836,333
Other current assets (Notes 11 and 28)	84,678,819	70,338,577
Total Current Assets	248,356,980	241,725,462
Noncurrent Assets		
Financial assets - net of current portion (Notes 9 and 28)	24,229,560	26,702,764
Investments in associate companies and joint ventures (Note 12)	280,971,638	259,795,077
Time deposits - net of current portion (Notes 8, 28 and 29)	2,412,972	2,392,622
Property and equipment (Note 13)	24,720,873	23,201,667
Investment properties (Note 14)	338,075,303	309,264,274
Right-of-use assets (Note 27)	37,664,176	—
Land and development - net of current portion (Note 15)	74,946,694	53,928,447
Intangibles (Note 16)	25,289,609	25,470,696
Deferred tax assets (Note 26)	3,121,117	2,726,155
Other noncurrent assets (Notes 16 and 28)	84,375,645	115,435,107
Total Noncurrent Assets	895,807,587	818,916,809
	₱1,144,164,567	₱1,060,642,271
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 31)	₱18,710,465	₱18,885,465
Accounts payable and other current liabilities (Notes 18 and 28)	141,451,764	124,777,719
Income tax payable	3,273,872	3,641,379
Current portion of long-term debt (Notes 19, 21, 28 and 31)	29,077,719	61,480,887
Dividends payable (Note 28)	4,204,962	3,906,476
Total Current Liabilities	196,718,782	212,691,926
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28, 29 and 31)	327,358,208	305,555,356
Lease liabilities - net of current portion (Notes 27 and 31)	27,600,392	—
Deferred tax liabilities (Note 26)	9,604,043	8,810,862
Tenants' deposits and others (Notes 25, 27, 28 and 29)	46,731,664	41,294,115
Total Noncurrent Liabilities	411,294,307	355,660,333
Total Liabilities	608,013,089	568,352,259

(Forward)



	December 31	
	2019	2018
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	₱12,045,829	₱12,045,829
Additional paid-in capital	75,815,923	75,815,520
Equity adjustments from common control transactions (Note 20)	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)
Cumulative translation adjustment	1,308,228	2,014,573
Net fair value changes on cash flow hedges	(1,406,026)	62,444
Net unrealized gain on financial assets (Note 9)	14,399,640	11,748,980
Re-measurement loss on defined benefit asset/obligation (Note 25)	(8,633,269)	(2,063,358)
Retained earnings (Note 20):		
Appropriated	37,000,000	37,000,000
Unappropriated	257,546,591	222,213,054
Total Equity Attributable to Owners of the Parent	382,627,075	353,387,201
Non-controlling Interests	153,524,403	138,902,811
Total Equity	536,151,478	492,290,012
	₱1,144,164,567	₱1,060,642,271

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands Except Per Share Data)

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Sales:			
Merchandise	₱354,088,848	₱323,740,170	₱288,532,163
Real estate	44,499,529	35,967,663	29,567,021
Rent (Notes 14, 21 and 27)	51,573,157	47,555,061	42,067,892
Equity in net earnings of associate companies and joint ventures (Note 12)	26,038,426	19,164,345	16,640,597
Cinema ticket sales, amusement and others	7,739,761	7,286,654	6,578,362
Management and service fees (Note 21)	7,348,479	6,379,831	5,820,571
Dividend income (Note 21)	480,513	421,914	495,582
Gain on sale of financial assets - net (Note 9)	27,812	1,337	110,234
Others	9,855,370	9,271,192	8,135,798
	501,651,895	449,788,167	397,948,220
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	262,434,661	238,902,107	214,494,703
Real estate (Note 15)	20,806,612	17,852,270	15,260,313
Selling, general and administrative expenses (Note 23)	113,257,931	106,419,699	92,342,430
	396,499,204	363,174,076	322,097,446
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	(19,194,311)	(16,574,388)	(15,580,819)
Interest income (Notes 21 and 24)	3,881,156	3,754,141	4,003,501
Gain on disposal of investments and properties - net	193,878	64,034	22,702
Gain on fair value changes on derivatives - net (Note 29)	6,379	454,941	296,334
Impairment loss on investment (Note 12)	(3,987,000)	—	—
Foreign exchange gain (loss) - net (Note 28)	561,705	(182,483)	698,742
	(18,538,193)	(12,483,755)	(10,559,540)
INCOME BEFORE INCOME TAX	86,614,498	74,130,336	65,291,234
PROVISION FOR INCOME TAX (Note 26)			
Current	16,218,229	15,115,326	13,616,519
Deferred	951,955	460,442	156,198
	17,170,184	15,575,768	13,772,717
NET INCOME	₱69,444,314	₱58,554,568	₱51,518,517
Attributable to			
Owners of the Parent (Note 30)	₱44,568,244	₱37,078,325	₱32,923,455
Non-controlling interests	24,876,070	21,476,243	18,595,062
	₱69,444,314	₱58,554,568	₱51,518,517
Basic/Diluted Earnings Per Common Share			
Attributable to Owners of the Parent (Note 30)	₱37.00	₱30.78	₱27.33

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME	₱69,444,314	₱58,554,568	₱51,518,517
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain on financial assets	—	—	4,973,426
Share in unrealized gain (loss) on financial assets of associates (Note 12)	4,505,589	(3,502,992)	354,028
Cumulative translation adjustment	(1,011,736)	326,536	1,243,928
Net fair value changes on cash flow hedges	(1,712,763)	2,589	(1,266,333)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	—	—	(147,803)
	1,781,090	(3,173,867)	5,157,246
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	(8,209,190)	(2,080,805)	(416,283)
Net unrealized loss on financial assets	(176,975)	(520,230)	—
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	553,736	(84,499)	124,884
	(7,832,429)	(2,685,534)	(291,399)
TOTAL COMPREHENSIVE INCOME	₱63,392,975	₱52,695,167	₱56,384,364
Attributable to			
Owners of the Parent	₱40,223,919	₱31,112,015	₱36,916,903
Non-controlling interests	23,169,056	21,583,152	19,467,461
	₱63,392,975	₱52,695,167	₱56,384,364

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent											Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total		
As at January 1, 2019	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
Net income	—	—	—	—	—	—	—	—	—	44,568,244	44,568,244	24,876,070	69,444,314
Other comprehensive income	—	—	—	—	(706,345)	(1,468,470)	4,400,401	(6,569,911)	—	—	(4,344,325)	(1,707,014)	(6,051,339)
Total comprehensive income	—	—	—	—	(706,345)	(1,468,470)	4,400,401	(6,569,911)	—	44,568,244	40,223,919	23,169,056	63,392,975
Realized gain on sale of financial assets at FVOCI (Note 9)	—	—	—	—	—	—	(1,749,741)	—	—	1,749,741	—	—	—
Sale of non-controlling interests	—	403	—	—	—	—	—	—	—	—	403	(81,462)	(81,059)
Cash dividends - ₱9.12 per share (Note 20)	—	—	—	—	—	—	—	—	—	(10,984,448)	(10,984,448)	—	(10,984,448)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(9,824,854)	(9,824,854)
Effect of business combination (Note 5)	—	—	—	—	—	—	—	—	—	—	—	1,358,352	1,358,352
Increase in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	500	500
As at December 31, 2019	₱12,045,829	₱75,815,923	(₱5,424,455)	(₱25,386)	₱1,308,228	(₱1,406,026)	₱14,399,640	(₱8,633,269)	₱37,000,000	₱257,546,591	₱382,627,075	₱153,524,403	₱536,151,478
As at January 1, 2018, as previously reported	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600	(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
Effect of adoption of new accounting standards	—	—	—	—	—	—	1,703,458	—	—	2,940,327	4,643,785	—	4,643,785
As adjusted	12,045,829	76,439,288	(5,424,455)	(25,386)	1,609,600	(206,977)	17,027,581	(701,255)	37,000,000	195,012,295	332,776,520	125,679,489	463,099,794
Net income	—	—	—	—	—	—	—	—	—	37,078,325	37,078,325	21,476,243	58,554,568
Other comprehensive income	—	—	—	—	404,973	269,421	(5,278,601)	(1,362,103)	—	—	(5,966,310)	106,909	(5,859,401)
Total comprehensive income	—	—	—	—	404,973	269,421	(5,278,601)	(1,362,103)	—	37,078,325	31,112,015	21,583,152	52,695,167
Sale of treasury shares held by a subsidiary	—	291,088	—	—	—	—	—	—	—	—	291,088	294,120	585,208
Acquisition of non-controlling interests	—	(914,856)	—	—	—	—	—	—	—	—	(914,856)	(857,160)	(1,772,016)
Cash dividends - ₱8.20 per share (Note 20)	—	—	—	—	—	—	—	—	—	(9,877,566)	(9,877,566)	—	(9,877,566)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(7,844,484)	(7,844,484)
Increase in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	47,694	47,694
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012



	Equity Attributable to Owners of the Parent												
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱721,994	₱494,724	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
Net income	—	—	—	—	—	—	—	—	—	32,923,455	32,923,455	18,595,062	51,518,517
Other comprehensive income	—	—	—	—	887,606	(701,701)	4,543,693	(736,150)	—	—	3,993,448	872,399	4,865,847
Total comprehensive income	—	—	—	—	887,606	(701,701)	4,543,693	(736,150)	—	32,923,455	36,916,903	19,467,461	56,384,364
Reversal of appropriation (Note 20)	—	—	—	—	—	—	—	—	(27,800,000)	27,800,000	—	—	—
Appropriation (Note 20)	—	—	—	—	—	—	—	—	28,800,000	(28,800,000)	—	—	—
Sale of treasury shares held by a subsidiary	—	78,810	—	—	—	—	—	—	—	—	78,810	79,506	158,316
Acquisition of non-controlling interests	—	13,249	—	—	—	—	—	—	—	—	13,249	(247,159)	(233,910)
Cash dividends - ₱7.77 per share (Note 20)	—	—	—	—	—	—	—	—	—	(9,359,609)	(9,359,609)	—	(9,359,609)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(6,709,448)	(6,709,448)
Decrease in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(1,174,751)	(1,174,751)
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600	(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱86,614,498	₱74,130,336	₱65,291,234
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	(26,038,426)	(19,164,345)	(16,640,597)
Depreciation and amortization (Notes 13, 14, 16, 23 and 27)	19,370,843	15,161,207	14,020,884
Interest expense (Note 24)	19,194,311	16,574,388	15,580,819
Interest income (Note 24)	(3,881,156)	(3,754,141)	(4,003,501)
Impairment loss on investment (Note 12)	3,987,000	—	—
Provisions - net (Notes 10, 14 and 23)	2,609,386	2,207,458	1,488,855
Dividend income (Note 21)	(480,513)	(421,914)	(495,582)
Unrealized foreign exchange loss - net	220,432	1,002,006	275,731
Gain on disposal of investments and properties - net (Notes 13 and 14)	(193,878)	(64,034)	(22,702)
Gain on sale of financial assets - net (Note 9)	(27,812)	(1,337)	(110,234)
Gain on fair value changes on derivatives - net (Note 29)	(6,379)	(454,941)	(296,334)
Income before working capital changes	101,368,306	85,214,683	75,088,573
Decrease (increase) in:			
Receivables and contract assets	(2,848,713)	(1,437,678)	(616,938)
Merchandise inventories	(1,321,289)	(4,057,592)	(1,953,451)
Other current assets	(6,103,198)	5,535,204	1,996,544
Land and development	(27,669,751)	(37,802,279)	(29,891,127)
Increase (decrease) in:			
Accounts payable and other current liabilities	21,611,185	15,835,135	18,509,650
Tenants' deposits and others	(2,498,565)	10,571,079	4,354,177
Net cash generated from operations	82,537,975	73,858,552	67,487,428
Income tax paid	(16,576,112)	(13,356,939)	(14,425,107)
Net cash provided by operating activities	65,961,863	60,501,613	53,062,321
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	3,814,634	771,361	1,983,045
Property and equipment	343,228	203,564	182,366
Investment properties	117,429	105,524	70,301
Additions to:			
Investment properties (Note 14)	(36,902,404)	(27,554,245)	(25,806,496)
Property and equipment (Note 13)	(7,446,414)	(6,452,489)	(5,067,991)
Investments in associate companies and joint ventures (Note 12)	(5,330,780)	(3,849,756)	(47,832,363)
Financial assets	(3,261,682)	(2,463,985)	(3,272,984)
Decrease (increase) in:			
Time deposits	25,111,241	12,913,443	26,473,746
Other noncurrent assets	(1,543,199)	(28,224,945)	(11,201,733)
Dividends received	5,558,665	4,945,350	4,175,190
Cash from acquisition of subsidiaries, net of purchase consideration	327,140	—	—
Interest received	4,048,370	3,827,116	4,182,186
Net cash used in investing activities	(15,163,772)	(45,779,062)	(56,114,733)

(Forward)



	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	₱52,895,468	₱70,787,135	₱55,866,308
Bank loans (Note 31)	25,266,865	32,199,317	59,419,602
Payments of:			
Long-term debt (Note 31)	(64,799,259)	(40,292,241)	(31,640,120)
Interest (Note 31)	(22,289,039)	(18,043,821)	(16,510,177)
Bank loans (Note 31)	(21,376,865)	(37,256,817)	(49,234,402)
Lease liabilities (Notes 27 and 31)	(2,854,295)	—	—
Dividends (Note 31)	(20,510,816)	(17,674,115)	(16,432,295)
Proceeds from maturity of derivatives	395,722	—	—
Reissuance by a subsidiary of treasury shares	—	585,207	158,316
Net cash provided by (used in) financing activities	(53,272,219)	(9,695,335)	1,627,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,474,128)	5,027,216	(1,425,180)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(625,313)	(32,191)	795,639
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	79,313,215	74,318,190	74,947,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱76,213,774	₱79,313,215	₱74,318,190

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On December 27, 2019, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation changing its corporate life to perpetual. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2020.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which are 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 (PFRSs). 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, Memorandum Circular No. 3, Series of 2019 and Memorandum Circular No. 4, Series of 2020.

Basis of Consolidation

The Group is considered to have control over an investee when the Group has:

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

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

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



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

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

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

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

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

Company	Principal Activities	Percentage of Ownership			
		2019		2018	
		Direct	Indirect	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	50	–	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	–	100	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	100	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	–	100	–	100
Magenta Legacy, Inc.	Real estate development	–	100	–	100
Associated Development Corporation	Real estate development	–	100	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	–	100	40	60
Tagaytay Resort Development Corp	Real estate development	–	100	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	100	–	100
MOA Esplanade Port, Inc.	Port terminal operations	–	100	–	100
Premier Clark Complex	Real estate development	–	100	–	–
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	–	100	–	100
First Asia Realty Development Corp.	Real estate development	–	74	–	74
Premier Central, Inc.	Real estate development	–	100	–	100
Consolidated Prime Dev. Corp.	Real estate development	–	100	–	100
Premier Southern Corp.	Real estate development	–	100	–	100
San Lazaro Holdings Corporation	Real estate development	–	100	–	100
Southernpoint Properties Corp.	Real estate development	–	100	–	100
First Leisure Ventures Group Inc.	Real estate development	–	50	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	–	100	–	100
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	100	–	100
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	–	100	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	–	100	–	100



Company	Principal Activities	Percentage of Ownership			
		2019		2018	
		Direct	Indirect	Direct	Indirect
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	–	100	–	100
SM Land (China) Limited and Subsidiaries *	Real estate development				
[Hong Kong]		–	100	–	100
Rushmore Holdings, Inc.	Real estate development	–	100	–	100
Prime Commercial Property Management Corp. and Subsidiaries (PCPMC)	Real estate development	–	100	–	100
Mindpro, Incorporated (Mindpro)	Real estate development	–	70	–	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	–	100	–	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	–	100	–	100
Cherry Realty Development Corporation	Real estate development	–	100	–	91
Supermalls Transport Services, Inc.	Real estate development	–	100	–	51
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	100	–	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	97	3	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	100	–	100	–
Bellevue Properties, Inc.	Real estate development	62	–	62	–
Neo Subsidiaries ^(a)	Real estate development	95	–	95	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	100	–	100	–
Philippines Urban Living Solutions, Inc. (PULSI) (see Note 5)	Real estate development	63	–	61	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	77	–	77	–
Others					
Primebridge Holdings, Inc.	Investment	100	–	100	–
Asia-Pacific Computer Technology Center, Inc. (APC) ^(b)	Education	–	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	91	–	91	–
Henfels Investments Corporation	Investment	99	–	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	99	–	59	40
Neo Property Management Incorporated	Investment	100	–	100	–

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

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

(b) In October 2019, the Group's equity interest in APC was reduced to 42%. Accordingly, equity accounting was used to account for the Group's investment in APC starting October 2019 (see Note 12).

Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2019 and 2018.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2019	2018
(In Thousands)		
Current assets	₱152,327,608	₱127,790,263
Noncurrent assets	514,952,066	476,344,055
Total assets	667,279,674	604,134,318
Current liabilities	95,256,780	88,279,852
Noncurrent liabilities	269,506,620	236,776,504
Total liabilities	364,763,400	325,056,356
Total equity	₱302,516,274	₱279,077,962



	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Attributable to:		
Owners of the Parent	₱300,916,171	₱275,302,994
Non-controlling interests	1,600,103	3,774,968
	₱302,516,274	₱279,077,962

Statements of Income

	Years Ended December 31		
	2019	2018	2017
	<i>(In Thousands)</i>		
Revenues	₱118,311,490	₱104,080,565	₱90,921,850
Cost and expenses	61,619,162	55,753,334	50,293,058
Other charges	7,530,334	6,361,056	4,680,931
Income before income tax	49,161,994	41,966,175	35,947,861
Provision for income tax	10,373,321	9,055,046	7,823,398
Net income	38,788,673	32,911,129	28,124,463
Other comprehensive income (loss)	(30,088)	(6,125,029)	7,330,510
Total comprehensive income	₱38,758,585	₱26,786,100	₱35,454,973
Attributable to:			
Owners of the Parent	₱38,085,601	₱32,172,886	₱27,573,866
Non-controlling interests	703,072	738,243	550,597
Net income	₱38,788,673	₱32,911,129	₱28,124,463
Attributable to:			
Owners of the Parent	₱38,058,471	₱26,050,908	₱34,906,622
Non-controlling interests	700,114	735,192	548,351
Total comprehensive income	₱38,758,585	₱26,786,100	₱35,454,973
Dividends paid to non-controlling interests	(₱633,700)	(₱576,200)	(₱580,791)

Cash Flows

	Years Ended December 31		
	2019	2018	2017
	<i>(In Thousands)</i>		
Net cash provided by operating activities	₱51,727,582	₱45,964,414	₱45,777,407
Net cash used in investing activities	(48,615,244)	(64,078,056)	(41,011,985)
Net cash provided by (used in) financing activities	(7,310,020)	12,633,352	14,175,986
Effect of exchange rate changes on cash and cash equivalents	31,174	(124,777)	229,144
Net increase (decrease) in cash and cash equivalents	(₱4,166,508)	(₱5,605,067)	₱19,170,552



3. Summary of Significant Accounting Policies, Changes and Improvements

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

Cash and Cash Equivalents

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

Time Deposits

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

Determination of Fair Value

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 based on the lowest level input that is significant to the fair value measurement as a whole and disclosed in the consolidated financial statements based on the fair value hierarchy described below:

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.



The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has assessed the class of assets and liabilities on the basis of the nature, characteristics and risks of the subject asset or liability.

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

Financial Instruments (effective January 1, 2018)

Financial Assets

Initial Recognition and Measurement

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

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

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

Subsequent Measurement

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

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



Financial Assets at Amortized Cost (Debt Instruments)

The Group measures financial assets at amortized cost when:

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

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

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

Financial Assets at FVPL

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

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

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

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

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

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

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

Financial Assets at FVOCI (Debt Instruments)

The Group measures debt instruments at FVOCI when:

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



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

As at December 31, 2019 and 2018, the Group does not have any debt instrument measured at FVOCI.

Financial Assets Designated at FVOCI (Equity Instruments)

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

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

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

Derecognition

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

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

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

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

Impairment

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



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

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

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

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

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

Financial Liabilities

Initial Recognition and Measurement

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

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

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

Subsequent Measurement

Loans and Borrowings

Interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.



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

Financial Liabilities at FVPL

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

Derecognition

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

Offsetting of Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

Initial Recognition and Subsequent Measurement

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

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

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

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

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



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

Fair Value Hedge

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

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

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

Cash Flow Hedges

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

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

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

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

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

Financial Instruments (effective before January 1, 2018)

Date of Recognition

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



Initial Recognition of Financial Instruments

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

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

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

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

Financial Assets and Liabilities at FVPL

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

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

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

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

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

Loans and Receivables

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



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

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

Other Financial Liabilities

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

Debt Issue Cost

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

Derivative Financial Instruments

The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative



contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash Flow Hedges

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

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

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

Other Derivative Instruments Not Accounted for as Hedges

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

Embedded Derivative

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

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



Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset is derecognized when:

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

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

Financial Liabilities

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

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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



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

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

Financial Assets Carried at Cost

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

Offsetting Financial Instruments

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

Merchandise Inventories

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

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

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

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

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



Investments in Associate Companies and Joint Ventures

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

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

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

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

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

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

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

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

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



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

Property and Equipment

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

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

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

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

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years

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

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

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

Investment Properties

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

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



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

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

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

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

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

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

Construction in Progress

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

Tenants' Deposits

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

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

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

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



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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of income in accordance with PFRS 9. Other contingent considerations that are not within the scope of PFRS 9 are measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities



assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

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

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

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

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

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

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

Intangible Assets

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

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

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

Land Use Rights

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



Impairment of Nonfinancial Assets

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

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

Capital Stock and Additional Paid-in Capital

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

Revenue and Cost Recognition

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

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

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

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



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

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

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

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

Effective beginning January 1, 2018

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

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

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

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

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

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

The Group availed of the deferral of adoption of the above specific provisions, except for land exclusion in the determination of POC.

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

In measuring the progress of its performance obligation over time, the Group uses output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date/ milestones reached/



time elapsed. This is based on the monthly project accomplishment report prepared by the third party project managers as approved by the construction manager which integrates the surveys of performance to date of the construction activities.

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

Any excess of collections over the total of recognized installment real estate receivables is included in contract liabilities.

The Group considers contracts for the sale of its condominium and residential units including the transfer of ownership to buyers as containing only one performance obligation. The consideration indicated in the contract to sell is fixed and without any variable component. The Group does not consider the quality assurance warranty covering its sales contracts as a separate performance obligation.

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 a certain percentage of the contract price spread over a certain period at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction.

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

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

Contract Balances

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

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

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



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

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

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

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

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

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

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

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

Effective before January 1, 2018

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



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

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

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

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

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

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

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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



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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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



Effective beginning on or after January 1, 2019

Group as Lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying asset.

- *ROU Assets.* The Group recognizes ROU assets at the commencement date of the lease. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimates of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, except when those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.
- *Lease Liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the exercise of an option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases and Leases of Low-value Assets.* The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have lease terms of 12 months or less from the commencement date and those that do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. These leases are recognized as expense on a straight-line basis over the lease term.

Effective before January 1, 2019

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



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

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

Provisions

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

Borrowing Cost

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

Taxes

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

Deferred Income Tax. Deferred income tax is set up based on the liability method and considering the temporary differences between the tax base of assets and liabilities and the corresponding carrying amounts at each reporting period.

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

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



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

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

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

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

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

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

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

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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



Events after the Reporting Period

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2019. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*

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

The interpretation specifically addresses the following:

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

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *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*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*



▪ PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases - Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors shall continue to classify using the same classification principle as in PAS 17 and distinguish only between two types of leases: operating and finance leases. PFRS 16 did not have any impact on leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach and applied the standard to contracts that were previously identified as leases under PAS 17 and Philippine Interpretation IFRIC 4.

The effect of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (decrease)
	<i>(In Thousands)</i>
ROU assets	P32,020,254
Accruals	(3,031,686)
Prepayments	(14,583)
Deferred tax assets	1,939,123
Deferred tax liabilities	1,513,956
Lease liabilities	24,781,169

Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Leases Previously Accounted for as Operating Leases. The Group recognized ROU assets and lease liabilities for those leases previously classified as operating leases. ROU assets were recognized based on an amount equal to lease liabilities and adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.



The lease liability as at January 1, 2019 is reconciled with the operating lease commitments as at December 31, 2018. Details follow:

	<i>(In Thousands)</i>
Operating lease commitments as at December 31, 2018	₱33,217,000
Weighted average incremental borrowing rate	4.9% - 10.4%
Discounted operating lease commitments	₱24,781,000
Less: Commitments relating to short-term leases	(157)
Add: Payments in optional extension periods not recognized at beginning of year	326
<u>Lease liability as at January 1, 2019</u>	<u>₱24,781,169</u>

With the adoption of PFRS 16 in 2019, the Group's operating profit and interest expense increased. This is due to the change in the accounting for rent expense related to leases that were previously classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have any impact to the January 1, 2019 equity since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any related prepaid or accrued lease payments recognized in the consolidated balance sheet immediately before the date of initial adoption.

Future Changes in Accounting Policies

The following are the new standards and amendments to PFRS that were issued but are not yet effective as at December 31, 2019. Unless otherwise indicated, the Group does not expect the future adoption of these new standards and amendments to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards and amendments when these become effective.

Effective beginning on or after January 1, 2020

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

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

These amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

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



These amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

▪ PFRS 17, *Insurance Contracts*

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

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

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

Deferred effectivity

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

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

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

- *Philippine Interpretations Committee (PIC) updates on PFRS 15 implementation Issues.* On August 27, 2019, the Group together with the real estate industry, sent a Position Paper to the PIC requesting the latter to revisit its position on certain issues relating to the adoption of PFRS 15 among others. In line with this, the PIC issued two response letters to the Industry dated September 13 and 27, 2019. Pending finalization of PIC's position on the matters raised by the Industry, PIC has provided the following options:

- Conclusion of PIC Q&A No. 2018-12D Step 3, *Determining the Transaction Price for the Contract*, temporarily allows the recording of the difference between the consideration received from customers and the value of goods or services transferred to customers as either a contract asset, with disclosures pursuant to PFRS 15, or as installment contracts receivable with disclosures pursuant to PFRS 9. The Group opted to retain its accounting policy of



presenting the difference between the consideration received and value of goods or services transferred as a contract asset with disclosures pursuant to PFRS 15.

- Conclusion of PIC Q&A No. 2018-12H, *Accounting for Common Usage Service Area (CUSA)*, recommends the industry to consider an alternative presentation wherein CUSA is not presented as part of revenues if these are not considered a main source of revenue and are immaterial in value.
- *March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs)*. In March 2019, the IFRIC issued an Agenda Decision clarifying the criteria for the capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development which are sold to customers prior to the start of construction or completion of the development.

Paragraph 8 of PAS 23 allows the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Paragraph 5 of PAS 23 defines a qualifying asset as an asset that takes a substantial period of time to get ready for its intended use or sale. The IFRIC Agenda Decision clarified that the related assets namely, installment contracts receivable, contract asset or inventory, are not considered qualifying assets and therefore the corresponding borrowing cost may not be capitalized.

In February 2020, the SEC decided to provide relief to the real estate industry by deferring the implementation of the March 2019 IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies shall adopt this IFRIC Interpretation of PAS 23 on the capitalization of borrowing costs and subsequent amendments thereto as the SEC shall prescribe.

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

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

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



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

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

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

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

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

Determination of Lease Term of Contracts with Renewal and Termination Options - Group as Lessee (On or after January 1, 2019). The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating the certainty or possibility of exercising the option to renew or terminate lease contracts. The Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term for any significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate the lease contract (e.g., construction of significant leasehold improvements or significant customization to the leased asset). In most cases, the Group exercises its option to renew.

Operating Lease Commitments - Group as Lessee (Before January 1, 2019). Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

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

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





Assessing of Control or Significant Influence of Investees

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

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

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

Estimates and Assumptions

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

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

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

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

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

The allowance account is reviewed on a regular basis. In 2019 and 2018, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.



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

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

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

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

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

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

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future



periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 26 for related balances.

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

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

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

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

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

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

Leases – Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it used its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). See Note 27 for related balances.



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

5. Business Combination

Acquisition

Philippines Urban Living Solutions, Inc. (PULSI). In April 2017, the Parent Company acquired 674.9 million common shares equivalent to 61.2% equity interest in PULSI, the developer and operator of *MyTown* dormitories.

Despite the Parent Company's 61.2% equity interest, PULSI has been accounted for as an associate under PAS 28, *Investments in Associates and Joint Ventures*, since the Parent Company did not meet the requirements to obtain control over PULSI as prescribed by PFRS 10, *Consolidated Financial Statements*.

On November 11, 2019, the Parent Company exercised its call option and purchased 22.9 million common shares of PULSI amounting to ₱136.8 million, thereby increasing its equity interest to 63.3%. Beginning November 11, 2019, PULSI was considered as a subsidiary in accordance with PFRS 3, *Business Combinations*.

The transaction was accounted for as a step acquisition under PFRS 3. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value
	<i>(in Thousands)</i>
Cash and cash equivalents	₱463,967
Receivables	11,983
Other current assets	122,975
Investment properties	4,606,817
Property and equipment (Note 13)	66,051
Other noncurrent assets	139,335
Total identifiable assets	5,411,128
Accrued expenses and other current liabilities	867,545
Deferred tax liabilities	842,532
Other noncurrent liabilities	827
Total identifiable liabilities	1,710,904
Net identifiable assets	3,700,224
Non-controlling interests	(1,358,352)
Fair value of previously held interest	(2,264,985)
Goodwill arising from the acquisition	59,940
Purchase consideration transferred	₱136,827



The cash flows from this acquisition follow:

Cash acquired	₱463,967
Purchase consideration transferred	(136,827)
Net	₱327,140

PULSI's receivables comprise mainly of rent receivables from tenants carried at cost. It is expected that the full contractual amounts as presented in the balance sheet will be collected in full.

The goodwill of ₱59.9 million represents the value of synergies expected to arise from the business combination.

From the date of acquisition, PULSI contributed ₱33.0 million of revenue and ₱2.7 million to net income. If the combination had taken place at the beginning of the year, revenue would have been ₱501,757.6 million and net income for the Group would have been ₱69,451.4 million.

6. Segment Information

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

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

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

The financial services and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

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

Operating Segment Financial Data

	2019			
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments Consolidated
	(In Thousands)			
Revenues:				
External customers	₱106,442,090	₱366,036,864	₱29,172,941	₱– ₱501,651,895
Inter-segment	15,127,079	189,391	3,315,815	(18,632,285) –
	₱121,569,169	₱366,226,255	₱32,488,756	(₱18,632,285) ₱501,651,895



2019					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Segment results:					
Income before income tax	₱49,881,226	₱20,463,932	₱16,269,340	₱–	₱86,614,498
Provision for income tax	(10,508,038)	(6,235,716)	(426,430)	–	(17,170,184)
Net income	₱39,373,188	₱14,228,216	₱15,842,910	₱–	₱69,444,314
Net income attributable to:					
Owners of the Parent	₱19,166,028	₱9,840,717	₱15,561,499	₱–	₱44,568,244
Non-controlling interests	20,207,160	4,387,499	281,411	–	24,876,070
2018					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	₱94,076,279	₱334,958,024	₱20,753,864	₱–	₱449,788,167
Inter-segment	14,179,779	207,805	3,003,367	(17,390,951)	–
	₱108,256,058	₱335,165,829	₱23,757,231	(₱17,390,951)	₱449,788,167
Segment results:					
Income before income tax	₱ 42,362,040	₱18,948,538	₱12,819,758	₱–	₱74,130,336
Provision for income tax	(9,093,080)	(6,227,332)	(255,356)	–	(15,575,768)
Net income	₱33,268,960	₱12,721,206	₱12,564,402	₱–	₱58,554,568
Net income attributable to:					
Owners of the Parent	₱16,072,906	₱8,710,519	₱12,294,900	₱–	₱37,078,325
Non-controlling interests	17,196,054	4,010,687	269,502	–	21,476,243
2017					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	₱80,875,566	₱298,797,817	₱18,274,837	₱–	₱397,948,220
Inter-segment	12,905,250	5,378	2,752,992	(15,663,620)	–
	₱93,780,816	₱298,803,195	₱21,027,829	(₱15,663,620)	₱397,948,220
Segment results:					
Income before income tax	₱36,438,790	₱17,261,621	₱11,590,823	₱–	₱65,291,234
Provision for income tax	(7,894,965)	(5,623,633)	(254,119)	–	(13,772,717)
	₱28,543,825	₱11,637,988	₱11,336,704	₱–	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱13,753,617	₱8,060,075	₱11,109,763	₱–	₱32,923,455
Non-controlling interests	14,790,208	3,577,913	226,941	–	18,595,062

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

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
<i>(In Thousands)</i>		
Cash on hand and in banks (Note 21)	₱19,218,912	₱13,609,347
Temporary investments (Note 21)	56,994,862	65,703,868
	₱76,213,774	₱79,313,215



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

8. Time Deposits

This account consists of time deposits as follows:

	2019	2018
	<i>(In Thousands)</i>	
Current	₱30,488	₱25,842,829
Noncurrent	2,412,972	2,392,622
	₱2,443,460	₱28,235,451

The time deposits bear interest ranging from 2.0% to 3.2% in 2019 and 1.0% to 4.2% in 2018.

Noncurrent time deposits amounting to ₱2,413.0 million and ₱2,382.6 million as at December 31, 2019 and 2018, respectively, are used as collateral for some credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Financial assets at FVOCI:		
Shares of stock		
Listed	₱22,240,653	₱23,382,060
Unlisted	2,635,484	2,613,690
Club shares	12,500	31,830
Financial assets at FVPL -		
Corporate notes	—	1,314,500
	24,888,637	27,342,080
Less current portion	659,077	639,316
Noncurrent portion	₱24,229,560	₱26,702,764

- Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.
- Financial assets at FVPL pertain to debt instruments where the contractual cash flows are not solely principal and interest.
- Investments in corporate notes bear a fixed interest of 5.0% in 2018.
- Gain on disposal of financial assets at FVOCI amounted to ₱27.8 million and ₱1.3 million in 2019 and 2018, respectively.



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

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱11,748,980	₱—
Share in net unrealized gain (loss) on financial assets at FVOCI of associates	4,376,205	(3,400,398)
Gain (loss) due to changes in fair value of financial assets at FVOCI	24,196	(1,876,865)
Transferred to retained earnings - realized gain on sale of financial assets at FVOCI	(1,749,741)	—
Effect of adoption of new accounting standards	—	1,703,458
Transfer from net unrealized gain on AFS investments	—	15,324,123
Transferred to profit or loss	—	(1,338)
Balance at end of year	₱14,399,640	₱11,748,980

Interest earned from financial assets is disclosed in Note 24.

10. Receivables and Contract Assets

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Trade:		
Real estate buyers*	₱66,679,220	₱50,878,438
Third-party tenants	8,469,829	7,252,071
Related-party tenants (Note 21)	432,513	383,424
Others	66,747	124,530
Due from related parties (Note 21)	1,079,944	953,010
Management and service fees (Note 21)	2,212,623	1,244,159
Dividends (Note 21)	610,649	185,767
	79,551,525	61,021,399
Less allowance for ECL	1,053,549	1,034,040
	78,497,976	59,987,359
Less noncurrent portion of receivables from real estate buyers (Note 16)	24,880,776	26,232,167
Current portion	₱53,617,200	₱33,755,192

* Includes unbilled revenue from sale of real estate amounting to ₱59,903.0 million and ₱46,501.0 million as at December 31, 2019 and 2018, respectively.

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment that are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱7,689.0 million and ₱1,664.0 million as at December 31, 2019 and 2018, respectively, and, on with recourse basis, ₱1,986.0 million and nil as at December 31, 2019 and 2018, respectively (see Note 21). The corresponding liability from the assignment of receivables on with recourse basis bears interest ranging from 4.3% to 4.5% in



2019 and 4.5% to 6.5% in 2018. The fair value of these assigned receivables and liability approximates cost.

The transaction price allocated to the remaining performance obligations totaling ₱11,424.0 million and ₱12,929.0 million as at December 31, 2019 and 2018, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.
- The terms and conditions relating to Due from related parties are discussed in Note 21.

Allowance for ECL pertains to receivables from tenants which were identified to be impaired based on specific assessment. The movements in in this account follow:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,034,040	₱1,054,498
Provisions (Note 23)	22,928	46,606
Reversal and writeoff	(3,419)	(67,064)
Balance at end of year	₱1,053,549	₱1,034,040

The aging of receivables follow:

	2019	2018
	<i>(In Thousands)</i>	
Neither past due nor impaired	₱75,132,839	₱58,110,539
Past due but not impaired:		
31-90 days	1,571,703	551,833
91-120 days	376,635	306,219
Over 120 days	1,416,799	1,018,768
Impaired	1,053,549	1,034,040
	₱79,551,525	₱61,021,399

Receivables other than those identified as impaired, are assessed as good and collectible.



11. Other Current Assets

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Land and development (Note 15)	₱37,935,968	₱29,486,964
Prepaid taxes and other prepayments	13,985,109	11,730,967
Condominium and residential units for sale (Note 15)	6,026,426	8,110,504
Bonds and deposits	9,519,229	6,601,305
Receivables from banks	5,497,587	4,158,765
Non-trade receivables	4,362,489	4,605,743
Input tax	4,261,278	2,439,164
Accrued interest receivable (Note 21)	192,499	359,714
Escrow fund (Notes 16 and 21)	117,985	157,719
Others	2,780,249	2,687,732
	₱84,678,819	₱70,338,577

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.
- Bonds and deposits pertain to down payments made to suppliers and contractors to cover preliminary expenses of the Group's construction projects. These are noninterest-bearing and are applied to progress billings depending on the percentage of project accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others.



12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2019	2018
	<i>(In Thousands)</i>	
Cost:		
Balance at beginning of year	₱164,862,652	₱161,012,896
Additions	5,330,780	3,849,756
Step acquisition (Note 5)	(1,250,000)	—
Reclassifications	1,579,750	—
Balance at end of year	170,523,182	164,862,652
Accumulated equity in net earnings:		
Balance at beginning of year	101,572,595	84,014,473
Equity in net earnings	26,038,426	19,164,345
Dividends received and others	(5,503,034)	(4,423,746)
Step acquisition (Note 5)	(22,455)	—
Effect of adoption of new standards	—	2,817,523
Balance at end of year	122,085,532	101,572,595
Share in other comprehensive loss of associate companies	(7,642,912)	(6,697,742)
Translation adjustment	(7,164)	57,572
	284,958,638	259,795,077
Allowance for impairment loss	3,987,000	—
	₱280,971,638	₱259,795,077

The associate companies and joint ventures of the Group follow:

Company	Percentage of Ownership				Principal Activities
	2019	2018	Gross	Effective	
Associates	Gross	Effective	Gross	Effective	
BDO Unibank, Inc. (BDO)	47	45	46	45	Financial services
China Banking Corporation (China Bank)	23	23	23	20	Financial services
Belle Corporation (Belle)	27	26	27	26	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation (Atlas)	34	34	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	40	40	40	40	Retail
Fast Retailing Philippines, Inc.	25	19	25	19	Retail
CityMall Commercial Centers, Inc.	34	34	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	5	5	5	5	Gaming
OCLP Holdings, Incorporated (OHI)	40	20	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd (FHREC)	50	25	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	40	31	40	31	Retail
2Go Group, Inc. (2Go)	30	30	34	34	Integrated supply chain
Neo Associates ^(a)	34	34	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	34	34	34	34	Bakery products and other food items
Asia-Pacific Computer Technology Center, Inc.	42	42	52	52	Investment
GPAY Network, PH, Inc.	35	35	—	—	Providing electronic money through electronic instruments
Joint Ventures					
Walmart Mall ^(b)	51	25	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	51	25	51	25	Transportation
ST 6747 Resources Corporation	50	25	50	25	Real estate development

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

(a) Neo Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.

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



Belle

In August 2018, Belle repurchased 735.6 million of its shares from the market, thus reducing the Group's effective ownership to 26.4%.

GBI

In June 2018, the Group acquired 34.1% equity interest in Goldilocks Bakeshop, Inc.

BDO

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

	2019	2018
	<i>(In Millions)</i>	
Total assets	₱3,188,858	₱3,022,247
Total liabilities	2,818,271	2,694,098
Total equity	370,587	328,149
Proportion of the Group's ownership	45%	46%
	166,764	150,949
Goodwill and others	26,201	14,554
Carrying amount of the Group's investment	₱192,965	₱165,503

	2019	2018	2017
	<i>(In Millions)</i>		
Interest income	₱160,572	₱129,040	₱99,795
Interest expense	(40,681)	(30,748)	(18,042)
Other expenses - net	(75,723)	(65,653)	(53,648)
Net income	44,168	32,639	28,105
Other comprehensive income (loss)	515	(4,727)	(1,868)
Total comprehensive income	₱44,683	₱27,912	₱26,237
Group's share in net income	₱20,592	₱15,101	₱12,968
Group's share in total comprehensive income (loss)	(₱936)	₱10,754	₱12,845

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

	2019	2018	2017
	<i>(In Millions)</i>		
Share in net income	₱5,446	₱4,063	₱3,673
Share in other comprehensive income (loss)	(9)	315	315
Share in total comprehensive income	₱5,437	₱4,378	₱3,988



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

	2019	2018
	<i>(In Thousands)</i>	
BDO	₱343,893,457	₱280,162,825
China Bank	15,172,742	16,414,423
Belle	5,183,434	6,016,951
Atlas	3,030,506	3,103,238
PLC	15,082,241	21,168,058

These investments are categorized as Level 1 in the fair value hierarchy.



13. Property and Equipment

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>									
Cost									
As at December 31, 2017	₱12,435,886	₱3,250,294	₱7,005,457	₱9,249,821	₱7,775,635	₱17,099,137	₱827,238	₱1,226,846	₱58,870,314
Additions	495,484	137,221	650,192	984,300	1,087,083	1,089,021	399,380	1,609,808	6,452,489
Reclassifications	731,140	318,803	215,101	(640,623)	595,411	943,314	14,273	(1,311,435)	865,984
Disposals/retirements	(7,238)	(43,712)	(33,983)	(29,836)	(35,489)	(319,355)	(276,580)	(10,715)	(756,908)
As at December 31, 2018	13,655,272	3,662,606	7,836,767	9,563,662	9,422,640	18,812,117	964,311	1,514,504	65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination (Note 5)	—	—	750	86,517	14,443	—	1,562	—	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019	₱14,326,958	₱4,010,449	₱8,588,993	₱9,884,981	₱10,337,665	₱20,599,451	₱1,047,794	₱2,718,921	₱71,515,212
Accumulated Depreciation and Amortization									
As at December 31, 2017	₱5,045,238	₱2,205,165	₱5,552,533	₱6,117,842	₱5,335,664	₱12,638,169	₱636,296	₱—	₱37,530,907
Depreciation and amortization (Note 23)	819,177	357,057	648,782	955,861	862,892	1,373,922	74,722	—	5,092,413
Reclassifications	14,631	42,348	30,070	(92,395)	52,707	165,661	3,137	—	216,159
Disposals/retirements	(5,766)	(41,873)	(32,274)	(25,906)	(32,862)	(310,433)	(160,153)	—	(609,267)
As at December 31, 2018	5,873,280	2,562,697	6,199,111	6,955,402	6,218,401	13,867,319	554,002	—	42,230,212
Depreciation and amortization (Note 23)	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	—	4,934,250
Effect of business combination (Note 5)	—	—	205	33,216	2,643	—	1,157	—	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	—	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	—	(295,374)
As at December 31, 2019	₱6,524,772	₱2,847,421	₱6,866,473	₱8,380,192	₱7,173,549	₱14,402,453	₱599,479	₱—	₱46,794,339
Net Book Value									
As at December 31, 2019	₱7,802,186	₱1,163,028	₱1,722,520	₱1,504,789	₱3,164,116	₱6,196,998	₱448,315	₱2,718,921	₱24,720,873
As at December 31, 2018	7,781,992	1,099,909	1,637,656	2,608,260	3,204,239	4,944,798	410,309	1,514,504	23,201,667



14. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Cost					
As at December 31, 2017	₱68,319,833	₱222,001,891	₱36,167,105	₱32,958,780	₱359,447,609
Additions	4,331,055	8,484,409	3,024,922	11,713,859	27,554,245
Reclassifications	(1,450,188)	9,065,328	1,112,146	(5,889,917)	2,837,369
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,313)	(24,124)	(565,731)
As at December 31, 2018	71,129,919	239,322,133	39,878,182	38,753,649	389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	—	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019	₱75,010,749	₱256,054,842	₱42,705,274	₱54,184,595	₱427,955,460
Accumulated Depreciation and Amortization					
As at December 31, 2017	₱1,988,051	₱46,650,292	₱21,791,001	₱—	₱70,429,344
Depreciation and amortization (Note 23)	226,776	6,654,052	3,067,430	—	9,948,258
Reclassifications	(26,656)	174,997	(153,171)	—	(4,830)
Translation adjustment	(9,243)	(68,853)	(14,860)	—	(92,956)
Disposals	(25,807)	(61,055)	(373,345)	—	(460,207)
As at December 31, 2018	2,153,121	53,349,433	24,317,055	—	79,819,609
Depreciation and amortization (Note 23)	244,454	7,297,151	3,064,236	—	10,605,841
Reclassifications	7,563	(11,523)	—	—	(3,960)
Effect of common control business combination	—	57,712	—	—	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	—	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	—	(119,973)
As at December 31, 2019	₱2,366,460	₱60,326,773	₱27,186,924	₱—	₱89,880,157
Net Book Value					
As at December 31, 2019	₱72,644,289	₱195,728,069	₱15,518,350	₱54,184,595	₱338,075,303
As at December 31, 2018	68,976,798	185,972,700	15,561,127	38,753,649	309,264,274

Portions of investment properties located in China with carrying value of ₱1,738.0 million and ₱1,886.0 million as at December 31, 2019 and 2018, respectively, were mortgaged as collateral to secure certain domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱50,138.7 million, ₱46,222.4 million and ₱40,957.3 million in 2019, 2018 and 2017, respectively. The corresponding direct operating expenses amounted to ₱35,117.7 million, ₱32,701.3 million and ₱30,486.4 million in 2019, 2018 and 2017, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱53,780.0 million and ₱38,740.0 million as at December 31, 2019 and 2018, respectively.

Construction contracts related to the construction of the above-mentioned projects amounted to ₱55,155.0 million and ₱47,100.0 million as at December 31, 2019 and 2018, respectively, inclusive of overhead, labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱24,676.0 million and ₱15,738.0 million as at December 31, 2019 and 2018, respectively.



Interest capitalized to investment properties amounted to ₱3,143.0 million and ₱2,681.0 million as at December 31, 2019 and 2018, respectively. Capitalization rates used range from 2.4% to 5.1% in 2019 and 2.4% to 5.0% in 2018.

The fair value of substantially all investment properties amounting to ₱1,350,307.2 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date.

The significant assumptions used in the valuations follow:

Discount rate	4.0%–8.0%
Capitalization rate	4.0%–8.0%
Average growth rate	1.0%–5.0%

In conducting the appraisal, the independent appraisers mainly used the Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

These investment properties are categorized as Level 3 in the fair value hierarchy since valuation is based on unobservable inputs.

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

Land and Development

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

The movements in “Land and development - current” accounted as real estate inventories follow:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱29,486,964	₱62,698,284
Reclassification to land and development - noncurrent, accounted as investment property	(7,227)	(36,484,925)
Development cost incurred	22,277,052	20,358,758
Transfer from land and development - noncurrent	1,810,966	—
Borrowing cost capitalized	—	4,047
Cost of real estate sold	(14,638,083)	(15,390,471)
Transfer to condominium and residential units for sale	(4,089,397)	(1,733,711)
Reclassification and others	3,095,693	34,982
Balance at end of year	₱37,935,968	₱29,486,964

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱838.0 million and ₱1,232.0 million as at December 31, 2019 and 2018, respectively, representing the unamortized portion of land cost.



The movements in “Land and development - noncurrent” accounted as investment property follow:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱53,928,447	₱—
Reclassification from land and development - noncurrent, accounted as real estate inventories	7,227	36,484,925
Land acquisitions	23,254,266	17,443,522
Reclassification to investment property	(432,280)	—
Transfer to land and development - current	(1,810,966)	—
	₱74,946,694	₱53,928,447

Not included in land and development - current and noncurrent is the estimated cost to complete the projects amounting to ₱74,238.0 million and ₱51,097.0 million as at December 31, 2019 and 2018, respectively.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2019 and 2018.

Condominium and Residential Units for Sale

The movements in this account follow:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱8,110,504	₱8,829,343
Transfer from land and development	4,089,397	1,733,711
Development cost incurred	—	1,644
Cost of real estate sold	(6,168,529)	(2,461,799)
Repossessed inventories and others	(4,946)	7,605
Balance at end of year (Note 11)	₱6,026,426	₱8,110,504

The condominium and residential units for sale are stated at cost as at December 31, 2019 and 2018.

16. Intangibles and Other Noncurrent Assets

Intangible Assets

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Goodwill	₱17,458,431	₱17,398,491
Less accumulated impairment loss	91,620	91,620
Net book value	17,366,811	17,306,871
Trademarks and brand names	7,922,798	8,163,825
	₱25,289,609	₱25,470,696

Goodwill is attributable mainly to SM Prime, Supervalu, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and PULSI.



Trademarks and brand names include the following:

- a. Brand names of SM Supermarket and SM Hypermarket that were acquired in a business combination in 2006. These are assessed to have an indefinite life and valued using the Relief-from-Royalty Method. The royalty rate used was 3.5%, the prevailing royalty rate in 2006 in the retail assorted category.
- b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 10 years.

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

The calculation of value-in-use is most sensitive to the following assumptions:

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 11.1% to 15.7% and 14.8% to 16.7% as at December 31, 2019 and 2018, respectively.

Fair value less cost of disposal. The fair value of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2019 and 2018 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Bonds and deposits	₱48,643,102	₱65,893,795
Receivables from real estate buyers* (Note 10)	24,880,776	26,232,167
Land use rights	377,722	9,976,393
Long-term notes (Notes 21 and 29)	5,942,878	6,739,026
Derivative assets (Note 29)	826,315	1,566,788
Deferred input VAT	1,410,699	1,689,045
Defined benefit asset (Note 25)	95,057	73,469
Escrow fund (Note 21)	132,460	132,460
Others	2,066,636	3,131,964
	₱84,375,645	₱115,435,107

* Pertains to the noncurrent portion of unbilled revenue from sales of real estate.



- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for its leased properties. These are not re-measured at amortized cost.
- Long-term notes pertain to a 7-year loan amounting to US\$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.
- Included under “Land use rights” account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Tenants’ deposits and others” account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱295.0 million and ₱319.0 million as at December 31, 2019 and 2018, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).
- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

17. Bank Loans

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Peso-denominated:		
Parent Company	₱8,829,900	₱4,850,000
Subsidiaries	9,880,565	14,035,465
	₱18,710,465	₱18,885,465

These loans bear interest ranging from 3.8% to 7.9% in 2019 and 2.9% to 6.0% in 2018.

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 24.



18. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Trade	₱85,996,862	₱70,934,888
Accrued expenses	11,324,572	11,697,441
Nontrade	9,790,527	6,230,139
Tenants and customers' deposits*	12,868,406	12,699,887
Payable arising from acquisition of land	4,769,349	7,974,792
Payables to government agencies	6,331,940	4,618,623
Accrued interest (Note 21)	2,833,930	3,058,294
Subscriptions payable	2,021,790	2,021,790
Due to related parties (Note 21)	1,031,812	1,362,505
Lease liabilities (Note 27)	1,534,154	—
Gift checks redeemable and others	2,948,422	4,179,360
	₱141,451,764	₱124,777,719

* Includes unearned revenue from sale of real estate amounting to ₱6,023.0 million and ₱4,195.0 million as at December 31, 2019 and 2018, respectively.

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties are discussed in Note 21.
- Gift checks are redeemable at face value.



19. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2019	2018
					<i>(In Thousands)</i>	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 16, 2019	October 17, 2019 - June 28, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	₱44,921,283	₱65,097,129
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	68,498,010	78,864,170
Subsidiaries						
U.S. dollar-denominated	April 23, 2014 - April 15, 2019	April 14, 2019 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	39,749,299	41,975,402
China Yuan Renminbi-denominated (Note 14)	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	2,670,803	3,118,514
Peso-denominated	January 12, 2012 - December 27, 2019	January 28, 2019 - August 7, 2029	Floating BVAL + margin; Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	202,247,332	179,751,217
					358,086,727	368,806,432
Less debt issue cost					1,650,800	1,770,189
					356,435,927	367,036,243
Less current portion					29,077,719	61,480,887
					₱327,358,208	₱305,555,356

BVAL – Bloomberg Valuation

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM

CBC – Central Bank of China

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,770,189	₱1,658,247
Amortization	(582,964)	(580,114)
Additions	463,575	692,056
Balance at end of year	₱1,650,800	₱1,770,189

Repayment Schedule

The repayment schedule of long-term debt as at December 31, 2019 follows:

	Gross Debt	Debt Issue Cost	Net
	<i>(In Thousands)</i>		
Within 1 year	₱29,089,674	₱11,955	₱29,077,719
Over 1 year to 5 years	298,882,114	1,606,667	297,275,447
Over 5 years	30,114,939	32,178	30,082,761
	₱358,086,727	₱1,650,800	₱356,435,927



Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime's loan covenants include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 75:25, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at December 31, 2019 and 2018, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2019	2018
Authorized - ₱10 par value per share	2,790,000,000	2,790,000,000
Issued and subscribed	1,204,582,867	1,204,582,867

As at December 31, 2019 and 2018, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012			
Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013			
Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013			
(25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013			
Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014			
Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015			
Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10



The total number of shareholders of the Parent Company is 1,261 and 1,255 as at December 31, 2019 and 2018, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2019	2018
Authorized - ₱10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2019 and 2018.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016.
- SM Prime common control business acquisitions in 2016 and 2017.

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

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		<i>(In Thousands)</i>
Balance as at January 1, 2015		₱27,000,000
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000
Reversal	November 8, 2017	(27,800,000)
Addition	November 8, 2017	28,800,000

Retained earnings appropriated as at December 31, 2019 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		<i>(In Thousands)</i>
Debt service	2020 - 2023	₱27,000,000
Investments	2020 - 2021	10,000,000
		₱37,000,000



- Unappropriated

The Parent Company's cash dividend declarations in 2019 and 2018 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
<i>(In Thousands)</i>				
April 24, 2019	May 9, 2019	May 23, 2019	₱9.12	₱10,985,796
April 25, 2018	May 10, 2018	May 24, 2018	8.20	9,877,580

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱237,286.0 million and ₱202,669.4 million as at December 31, 2019 and 2018, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱16,330.0 million and ₱17,196.9 million as at December 31, 2019 and 2018, respectively.

21. Related Party Disclosures

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

The significant transactions with related parties follow:

- Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Management and Service Fees

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

- Dividend Income

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

- Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

The Group has certain notes receivable from Carmen Copper Corporation (see Notes 16 and 28).



■ Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount		Terms	Conditions
	2019	2018	2017	2019	2018		
	(In Thousands)						
Banking Group							
Cash placement and investment in marketable securities				₱60,819,475	₱89,922,969	Interest-bearing	Unsecured; no impairment
Interest receivable				96,400	227,606	—	—
Interest income	₱2,738,310	₱2,253,257	₱2,401,642			—	
Interest-bearing debt				25,787,720	31,446,016	Interest-bearing	Unsecured
Interest payable				85,185	65,477	—	—
Interest expense	1,885,429	1,441,884	984,569			—	—
Rent receivable				130,907	126,809	Noninterest-bearing	Unsecured; no impairment
Rent income	1,018,963	943,474	856,149			—	—
Receivable financed	7,689,986	1,663,822	4,923,847			Without recourse	Unsecured
Dividends receivable				13,462	2,587	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				17,722,250	18,403,000	Interest-bearing 4.5%	Unsecured; no impairment
Management and service fee receivable				16,882	14,469	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	2,799	4,205	7,892			—	—
Escrow fund				250,445	290,179	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				301,606	256,615	Noninterest-bearing	Unsecured; no impairment
Rent income	2,144,633	1,926,478	1,746,184			—	
Management and service fee receivable				1,938,102	937,255	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	1,713,152	1,233,740	489,437			—	—
Due from related parties				1,079,944	953,010	Noninterest-bearing	Unsecured; no impairment
Due to related parties				1,031,812	1,362,505	Noninterest-bearing	Unsecured
Dividend receivable				369,988	—	Noninterest-bearing	Unsecured
Interest receivable				9,905	9,360	—	—
Interest income	387,437	345,700	366,183			—	—
Notes receivable				5,942,878	6,739,026	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties.



Compensation of Key Management Personnel

The aggregate compensation and benefits relating to key management personnel in 2019, 2018 and 2017 consist of short-term employee benefits amounting to ₱3,270.9 million, ₱2,544.5 million and ₱2,043.7 million, respectively, and post-employment benefits amounting to ₱372.7 million, ₱338.2 million and ₱279.9 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2019	2018	2017
	<i>(In Thousands)</i>		
Merchandise inventories at beginning of year	₱31,836,333	₱27,778,741	₱25,825,290
Purchases	263,755,950	242,959,699	216,448,154
Total goods available for sale	295,592,283	270,738,440	242,273,444
Less merchandise inventories at end of year	33,157,622	31,836,333	27,778,741
	₱262,434,661	₱238,902,107	₱214,494,703

23. Selling, General and Administrative Expenses

This account consists of:

	2019	2018	2017
	<i>(In Thousands)</i>		
Personnel cost (Note 21)	₱29,924,102	₱23,948,881	₱19,725,683
Depreciation and amortization (Notes 13, 14, 16 and 27)	19,370,843	15,161,207	14,020,884
Utilities	18,028,601	18,048,050	15,691,055
Taxes and licenses	9,714,573	9,783,825	8,816,366
Outside services	7,048,795	8,339,162	8,157,459
Marketing and selling	6,803,530	5,847,641	5,166,973
Rent (Note 27)	4,474,401	7,668,449	6,723,855
Repairs and maintenance	3,067,465	2,977,334	2,791,300
Supplies	2,474,260	2,584,725	2,363,417
Provisions - net (Note 10)	2,609,386	2,207,458	1,488,855
Transportation and travel	1,179,285	1,152,212	1,034,751
Pension (Note 25)	1,145,678	962,405	667,572
Insurance	864,113	807,540	734,322
Data processing	788,316	664,778	614,141
Professional fees	311,659	579,945	444,687
Entertainment, representation and amusement	378,813	519,664	373,296
Communications	343,261	353,108	333,149
Donations	359,975	348,486	252,540
Management fees (Note 21)	197,555	183,884	207,180
Others	4,173,320	4,280,945	2,734,945
	₱113,257,931	₱106,419,699	₱92,342,430



24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2019	2018	2017
	<i>(In Thousands)</i>		
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	₱1,221,445	₱1,551,959	₱1,967,629
Cash in banks and temporary investments (Note 7)	1,990,315	1,706,201	1,137,524
Financial assets (Note 9)	—	65,095	340,984
Others (Note 11)	669,396	430,886	557,364
	₱3,881,156	₱3,754,141	₱4,003,501
Interest expense on:			
Long-term debt (Note 19)	₱15,737,919	₱14,857,203	₱13,217,491
Bank loans (Note 17)	1,401,349	1,399,546	819,017
Lease liabilities (Note 27)	1,676,045	—	—
Others	378,998	317,639	1,544,311
	₱19,194,311	₱16,574,388	₱15,580,819

25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under “Selling, general and administrative expenses”) consists of:

	2019	2018	2017
	<i>(In Thousands)</i>		
Current service cost	₱1,050,358	₱959,134	₱728,182
Net interest cost (income)	98,138	2,681	(12,097)
Past service cost - curtailment	(2,818)	590	(48,513)
	₱1,145,678	₱962,405	₱667,572

Changes in the net defined benefit liability and asset follow:

▪ Net Defined Benefit Liability

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
	<i>(In Thousands)</i>			
As at December 31, 2017	₱4,154,578	₱3,538,089	₱—	₱616,489
Net benefit expense (Note 23):				
Current service cost	796,527	—	—	796,527
Net interest cost	406,544	395,213	193	11,524
	1,203,071	395,213	193	808,051

(Forward)



	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
<i>(In Thousands)</i>				
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	P–	(P713,607)	P–	P713,607
Actuarial changes arising from:				
Changes in financial assumptions	(1,810,481)	–	–	(1,810,481)
Changes in demographic assumptions	266,954	–	–	266,954
Experience adjustment	2,055,346	–	–	2,055,346
Others	–	–	(1,644)	(1,644)
	511,819	(713,607)	(1,644)	1,223,782
Reclassifications from defined benefit assets	2,889,077	3,038,695	–	(149,618)
Actual contributions	–	981,148	–	(981,148)
Benefits paid	(393,096)	(393,096)	–	–
Transfer to related parties	6,670	6,670	–	–
Other adjustments	7,965	590	1,451	8,826
As at December 31, 2018	8,380,084	6,853,702	–	1,526,382
Net benefit expense (Note 23):				
Current service cost	1,008,560	–	–	1,008,560
Net interest cost	743,511	643,614	108	100,005
	1,752,071	643,614	108	1,108,565
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(8,581)	–	8,581
Actuarial changes arising from:				
Changes in financial assumptions	2,436,454	–	–	2,436,454
Changes in demographic assumptions	17,266	–	–	17,266
Experience adjustment	657,913	–	–	657,913
Others	–	–	(1,689)	(1,689)
	3,111,633	(8,581)	(1,689)	3,118,525
Reclassifications from defined benefit assets	827,328	1,153,704	–	(326,376)
Effect of common control business combination (Note 5)	277	–	–	277
Actual contributions	–	1,607,666	–	(1,607,666)
Benefits paid	(440,647)	(434,477)	–	(6,170)
Transfer to related parties	(9,221)	(9,221)	–	–
Other adjustments	257,003	–	1,581	258,584
As at December 31, 2019	P13,878,528	P9,806,407	P–	P4,072,121

■ Net Defined Benefit Asset

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
<i>(In Thousands)</i>				
As at December 31, 2017	P4,002,879	P4,379,341	P14	(P376,448)
Net benefit expense (Note 23):				
Current service cost	162,607	–	–	162,607
Net interest cost (income)	72,688	83,045	1,514	(8,843)
Past service cost - curtailment	590	–	–	590
	235,885	83,045	1,514	154,354
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(162,462)	–	162,462
Actuarial changes arising from:				
Changes in financial assumptions	(293,471)	–	–	(293,471)
Changes in demographic assumptions	(1,827)	–	–	(1,827)
Experience adjustment	188,577	–	–	188,577
Others	–	–	33	33
	(106,721)	(162,462)	33	55,774

(Forward)



	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
<i>(In Thousands)</i>				
Reclassifications from defined benefit liabilities	(P2,766,690)	(P3,035,117)	P—	P268,427
Effect of common control business combination (Note 5)	23,496	16,604	—	6,892
Actual contributions	—	196,152	—	(196,152)
Benefits paid	(33,148)	(33,148)	—	—
Transfer from the plan	839	839	—	—
Amount not recognized due to asset limit	—	—	15,250	15,250
Other adjustments	—	—	(1,566)	(1,566)
As at December 31, 2018	1,356,540	1,445,254	15,245	(73,469)
Net benefit expense (Note 23):				
Current service cost	41,798	—	—	41,798
Net interest cost (income)	20,879	23,813	1,067	(1,867)
Past service cost - curtailment	(2,818)	—	—	(2,818)
	59,859	23,813	1,067	37,113
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	6,519	—	(6,519)
Actuarial changes arising from:				
Changes in financial assumptions	3,759	—	—	3,759
Changes in demographic assumptions	(120)	—	—	(120)
Experience adjustment	(9,540)	—	—	(9,540)
Others	—	—	(3,529)	(3,529)
	(5,901)	6,519	(3,529)	(15,949)
Reclassifications from defined benefit liabilities	(851,621)	(1,147,177)	—	295,556
Actual contributions	—	104,393	—	(104,393)
Benefits paid	(6,165)	(6,165)	—	—
Transfer from the plan	295	295	—	—
Amount not recognized due to asset limit	—	—	11,299	11,299
Other adjustments	(232,426)	—	(12,788)	(245,214)
As at December 31, 2019	P320,581	P426,932	P11,294	(P95,057)

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

	2019	2018
Discount rate	3.8%-7.7%	5.0%-8.0%
Future salary increases	2.0%-9.0%	2.0%-10.0%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

	2019	2018
<i>(In Thousands)</i>		
Cash and cash equivalents	P485,544	P816,168
Investment in debt and other securities	2,435,008	2,214,942
Investment in common trust funds	3,852,852	2,720,038
Investment in equity securities	143,261	200,046
Investment in government securities	3,257,911	2,298,150
Others	58,763	49,612
	P10,233,339	P8,298,956



- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 7.5% and 4.0% to 8.8% in 2019 and 2018, respectively. These have maturities from February 2020 to October 2026 and May 2019 to October 2025 in 2019 and 2018, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investment in government securities consists of retail treasury bonds. These bonds bear interest ranging from 3.3% to 8.8% and 2.1% to 8.8% in 2019 and 2018, respectively. These bonds have maturities from February 2020 to May 2030 and February 2019 to May 2030 in 2019 and 2018, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank follow:

	2019	2018
	<i>(In Thousands)</i>	
Balances:		
Cash and cash equivalents	₱485,544	₱816,168
Investment in common trust funds	3,852,852	2,720,038
Transactions:		
Interest income from cash and cash equivalents	183,328	11,702
Gains (loss) from investment in common trust funds	110,455	(15,627)

The Group expects to contribute about ₱1,913.2 million to its Pension Plan in 2020.

The sensitivity analysis below has been determined based on reasonably possible changes in each significant assumption on the defined benefit obligation as at December 31, 2019 and 2018, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		<i>(In Thousands)</i>
2019		
Discount rates	50	(₱554,688)
	(50)	541,759
Future salary increases	100	1,101,148
	(100)	(1,607,872)
No attrition rate	—	2,157,892
2018		
Discount rates	50	(₱331,311)
	(50)	346,601
Future salary increases	100	972,807
	(100)	(815,430)
No attrition rate	—	1,921,376



The average duration of the Group's defined benefit obligation is 3 to 28 years in 2019 and 4 to 28 years in 2018.

The maturity analysis of the undiscounted benefit payments follows:

	2019	2018
	<i>(In Thousands)</i>	
Year 1	₱1,614,943	₱717,315
Year 2	548,903	379,992
Year 3	379,677	466,365
Year 4	479,300	372,793
Year 5	476,010	421,637
Year 6 -10	3,120,444	2,575,923

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

26. Income Tax

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

	2019	2018
	<i>(In Thousands)</i>	
Deferred tax assets:		
Excess of fair values over cost of investment properties	₱1,151,366	₱1,167,853
NOLCO	413,026	508,314
Lease liabilities	7,717,920	—
Accrued leases	749,979	651,103
Provision for doubtful accounts and others	1,177,356	807,565
Unamortized past service cost and defined benefit liability	1,009,245	220,270
MCIT	17,088	3,394
	12,235,980	3,358,499
Deferred tax liabilities:		
Appraisal increment on investment property	3,013,880	3,088,393
ROU assets	7,319,668	—
Trademarks and brand names	1,879,000	1,879,000
Capitalized interest	1,768,391	1,807,409
Unrealized gross profit on sale of real estate	3,935,005	2,011,975
Excess of fair values over cost of equity instruments	125,084	273,146
Unamortized past service cost and defined benefit asset	186,000	35,853
Accrued/deferred rent income	114,875	107,640
Others	377,003	239,790
	18,718,906	9,443,206
Net deferred tax liabilities	₱6,482,926	₱6,084,707



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

	2019	2018
	<i>(In Thousands)</i>	
Deferred tax assets	₱3,121,117	₱2,726,155
Deferred tax liabilities	9,604,043	8,810,862
	₱6,482,926	₱6,084,707

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱5,356.6 million and ₱4,429.6 million as at December 31, 2019 and 2018, respectively.

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

	2019	2018	2017
Statutory income tax rate	30%	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	(9)	(8)	(8)
Interest income subjected to final tax	(1)	(2)	(2)
Others	—	1	1
Effective income tax rate	20%	21%	21%

27. Lease Agreements

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

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

	2019	2018
	<i>(In Millions)</i>	
Within one year	₱6,778	₱6,944
After one year but not more than five years	19,188	18,729
More than five years	6,520	6,517
	₱32,486	₱32,190

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



There are also non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options and those that provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The rollforward analysis of ROU assets follows:

	Land Use Rights	Office/Store Space	Total
	<i>(In Thousands)</i>		
Cost			
As at January 1, 2019, as previously reported	P–	P–	P–
Effect of adoption of PFRS 16 (Note 3)	18,293,095	13,727,159	32,020,254
As at January 1, 2019, as restated	18,293,095	13,727,159	32,020,254
Additions	3,000,000	5,531,628	8,531,628
Reclassifications	145,995	1,033,071	1,179,066
Translation adjustment	(481,794)	–	(481,794)
Disposals	(2,073)	–	(2,073)
As at December 31, 2019	P20,955,223	P20,291,858	P41,247,081
Accumulated Depreciation and Amortization			
As at January 1, 2019	P–	P–	P–
Depreciation and amortization (Note 23)	510,196	3,077,734	3,587,930
Translation adjustment	(4,415)	–	(4,415)
Disposals	(610)	–	(610)
As at December 31, 2019	P505,171	P3,077,734	P3,582,905
Net Book Value			
As at December 31, 2019	P20,450,052	P17,214,124	P37,664,176

Following are the amounts recognized in the consolidated statement of income for the year ended December 31, 2019:

	<i>(In Thousands)</i>
Depreciation of ROU assets	P3,587,930
Interest expense on lease liabilities	1,676,045

The rollforward analysis of lease liabilities follows:

	<i>(In Thousands)</i>
As at January 1, 2019, as previously reported	P–
Effect of adoption of PFRS 16 (Note 3)	24,781,169
As at January 1, 2019, as restated	24,781,169
Additions	5,531,627
Interest expense (Note 24)	1,676,045
Payments	(2,854,295)
As at December 31, 2019	P29,134,546

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.



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

	2019	2018
	<i>(In Millions)</i>	
Within one year	₱4,565	₱2,470
After one year but not more than five years	12,954	4,283
More than five years	29,350	26,464
	₱46,869	₱33,217

Tenant's deposits amounted to ₱23,607.1 million and ₱19,774.5 million as at December 31, 2019 and 2018, respectively.

28. Financial Risk Management Objectives and Policies

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

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

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

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three or six months.
- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.
- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks.



Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 19).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2019 and 2018, after taking into account the effect of the swaps, approximately 79.0% and 81.1%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest-bearing debt with floating interest rates, follows:

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
		(In Millions)
2019	100	(₱172.7)
	50	(86.4)
	(100)	172.7
	(50)	86.4
2018	100	(₱236.3)
	50	(118.2)
	(100)	236.3
	(50)	118.2

The assumed movement in basis points for interest rate sensitivity analysis is based on observable market conditions.

Foreign Currency Risk

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

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

	2019		2018	
	US\$	PhP	US\$	PhP
	(In Thousands)			
Current assets:				
Cash and cash equivalents	\$10,003	₱506,525	\$5,825	₱306,275
Time deposits			491,275	25,831,265
Receivables and contract assets	1,023	51,800	55,025	2,893,228

(Forward)



	2019		2018	
	US\$	PhP	US\$	PhP
	(In Thousands)			
Noncurrent assets:				
Time deposits	\$361,896	₱18,324,621	\$21,713	₱1,141,652
Other noncurrent assets	136,949	6,934,428	514,749	27,065,524
Total assets	509,871	25,817,374	1,088,587	57,237,944
Current liabilities:				
Current portion of long-term debt	—	—	495,680	26,062,856
Accounts payable and other current liabilities	1,223	61,939	5,607	294,821
Noncurrent liabilities:				
Long-term debt - net of current portion	475,028	24,053,060	528,424	27,784,556
Total liabilities	476,251	24,114,999	1,029,711	54,142,233
Net	\$33,620	₱1,702,375	\$58,876	₱3,095,711

As at December 31, 2019 and 2018, approximately 23.1% and 28.4%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of ₱561.7 million gain, ₱182.5 million loss and ₱698.7 million gain in 2019, 2018 and 2017, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2019	₱50.64
December 31, 2018	52.58
December 31, 2017	49.93

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's financial assets and liabilities denominated in foreign currency, follows:

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
		(In Millions)
2019	1.50	₱50.4
	1.00	33.6
	(1.50)	(50.4)
	(1.00)	(33.6)
 2018	 1.50	 ₱88.3
	1.00	58.9
	(1.50)	(88.3)
	(1.00)	(58.9)

Liquidity Risk

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

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



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

	2019	2018
	(In Thousands)	
Cash and cash equivalents	₱76,213,774	₱79,313,215
Current portion of time deposits	30,488	25,842,829

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

	2019			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Bank loans	₱18,710,465	₱—	₱—	₱18,710,465
Accounts payable and other current liabilities *	122,251,417	—	—	122,251,417
Long-term debt (including current portion) **	37,745,146	336,519,185	96,164,360	470,428,691
Derivative liabilities**	—	1,966,090	—	1,966,090
Dividends payable	4,204,962	—	—	4,204,962
Lease liabilities	3,859,945	12,334,377	25,810,461	42,004,783
Tenants' deposits **	297,039	21,306,522	64,830	21,668,391
Other noncurrent liabilities ***	—	22,775,561	—	22,775,561
	₱187,068,974	₱394,901,735	₱122,039,651	₱704,010,360

*Excluding payables to government agencies of ₱6,331.9 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to ₱5,086.4 million.

	2018			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Bank loans	₱18,885,465	₱—	₱—	₱18,885,465
Accounts payable and other current liabilities *	107,459,209	—	—	107,459,209
Long-term debt (including current portion) **	72,701,164	268,546,245	93,842,363	435,089,772
Derivative liabilities**	—	335,008	—	335,008
Dividends payable	3,906,476	—	—	3,906,476
Tenants' deposits **	299,939	21,688,833	62,911	22,051,683
Other noncurrent liabilities ***	148,772	14,251,063	—	14,399,835
	₱203,401,025	₱304,821,149	₱93,905,274	₱602,127,448

*Excluding payables to government agencies of ₱4,618.6 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to ₱3,432.6 million.

Credit Risk

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

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

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



As at December 31, 2019 and 2018, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets

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

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

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

	2019			2018		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<i>(In Thousands)</i>						
Cash and cash equivalents (excluding cash on hand)	₱74,274,369	₱—	₱74,274,369	₱77,583,440	₱—	₱77,583,440
Time deposits including noncurrent portion	2,443,460		2,443,460	28,235,451	—	28,235,451
Financial assets	22,253,153	2,635,485	24,888,638	24,728,390	2,613,690	27,342,080
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	46,018,028	8,873,608	54,891,636	30,230,611	7,610,927	37,841,538
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	21,431,159	—	21,431,159	15,451,092	—	15,451,092
Escrow fund	250,445	—	250,445	290,179	—	290,179
Other noncurrent assets:						
Bonds and deposits	17,722,250	—	17,722,250	18,403,000	—	18,403,000
Long-term notes	5,942,878	—	5,942,878	6,739,026	—	6,739,026
Derivative assets (including noncurrent portion)	826,315	—	826,315	1,566,788	—	1,566,788
	₱191,162,057	₱11,509,093	₱202,671,150	₱203,227,977	₱10,224,617	₱213,452,594

*Excluding non-financial assets amounting to ₱20,268.6 and ₱20,269.0 million as at December 31, 2019 and 2018, respectively.

**Excluding non-financial assets amounting to ₱449.3million and ₱274.4 million as at December 31, 2019 and 2018, respectively.

Equity Price Risk

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

The sensitivity analysis for a reasonably possible change in equity indices, with all other variables held constant, of the Group's investments in listed shares of stock, follows:

	Change in Equity Price	Effect on Equity
		<i>(In Millions)</i>
2019	+2.86%	₱838.5
	-2.86%	(838.5)
2018	+1.78%	₱621.1
	-1.78%	(621.1)



Capital Management

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

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

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

Net Gearing Ratio

	2019	2018
	<i>(In Thousands)</i>	
Bank loans	₱18,710,465	₱18,885,465
Long-term debt (current and noncurrent)	356,435,927	367,036,243
Less:		
Cash and cash equivalents (excluding cash on hand)	(74,274,369)	(77,583,440)
Time deposits (current and noncurrent)	(2,443,460)	(28,235,451)
Net interest-bearing debt (a)	298,428,563	280,102,817
Total equity	536,151,478	492,290,012
Net interest-bearing debt and total equity (b)	₱834,580,041	₱772,392,829
Gearing ratio - net (a/b)	36%	36%

Gross Gearing Ratio

	2019	2018
	<i>(In Thousands)</i>	
Bank loans	₱18,710,465	₱18,885,465
Long-term debt	356,435,927	367,036,243
Total interest-bearing debt (a)	375,146,392	385,921,708
Total equity	536,151,478	492,290,012
Total interest-bearing debt and total equity (b)	₱911,297,870	₱878,211,720
Gearing ratio - gross (a/b)	41%	44%



29. Financial Instruments

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

		2019			
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱22,240,653	₱22,240,653	₱22,240,653	₱–	₱–
Unlisted shares of stock	2,635,484	2,635,484	–	–	2,635,484
Club shares	12,500	12,500	–	12,500	–
Derivative assets	826,315	826,315	–	826,315	–
	25,714,952	25,714,952	22,240,653	838,815	2,635,484
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,412,972	2,386,637	–	–	2,386,637
Other noncurrent assets:					
Bonds and deposits	17,722,250	19,763,982	–	–	19,763,982
Long-term notes	5,942,878	7,577,904	–	–	7,577,904
	26,078,100	29,728,523	–	–	29,728,523
	₱51,793,052	₱55,443,475	₱22,240,653	₱838,815	₱32,364,007
Liabilities Measured at Fair Value					
Derivative liabilities	₱1,966,090	₱1,966,090	₱–	₱1,966,090	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	327,358,208	331,463,306	–	–	331,463,306
Lease liabilities - noncurrent portion	27,600,392	38,144,838	–	–	38,144,838
Tenants' deposits and others*	35,607,059	32,355,186	–	–	32,355,186
	390,565,659	401,963,330	–	–	401,963,330
	₱392,531,749	₱403,929,420	₱–	₱1,966,0900	₱401,963,330

*Excluding nonfinancial liabilities amounting to ₱5,086.4 million.

		2018			
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱23,382,060	₱23,382,060	₱23,382,060	₱–	₱–
Unlisted shares of stock	2,613,690	2,613,690	–	–	2,613,690
Club shares	31,830	31,830	–	31,830	–
Financial assets at FVPL	1,314,500	1,314,500	1,314,500	–	–
Derivative assets	1,566,788	1,566,788	–	1,566,788	–
	28,908,868	28,908,868	24,696,560	1,598,618	2,613,690
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,392,622	2,339,327	–	–	2,339,327
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)	59,987,359	57,604,083	–	–	57,604,083
Other noncurrent assets:					
Bonds and deposits	18,403,000	19,800,272	–	–	19,800,272
Long-term notes	6,739,026	8,489,300	–	–	8,489,300
	87,522,007	88,232,982	–	–	88,232,982
	₱116,430,875	₱117,141,850	₱24,696,560	₱1,598,618	₱90,846,672
Liabilities Measured at Fair Value					
Derivative liabilities	₱335,008	₱335,008	₱–	₱335,008	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	305,555,356	288,274,800	–	–	288,274,800
Tenants' deposits and others*	36,000,150	32,026,177	–	–	32,026,177
	341,555,506	320,300,977	–	–	320,300,977
	₱341,890,514	₱320,635,985	₱–	₱335,008	₱320,300,977

*Excluding nonfinancial liabilities amounting to ₱3,432.6 million.



There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2019 and 2018.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2019	2018
Noncurrent portion of time deposits	4.41% - 4.74%	2.0% - 7.9%
Noncurrent portion of receivables from real estate buyers	—	7.0%
Long-term notes included under “Other noncurrent assets” account	1.69% - 1.94%	2.6% - 2.8%
Tenants’ deposits	3.12%-4.74%	5.3% - 7.9%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.7% to 6.5% and 2.6% to 8.5% as at December 31, 2019 and 2018, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.0% to 7.0% and 3.8% to 9.0% as at December 31, 2019 and 2018, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	₱1,231,780	₱4,564,032
Net changes in fair value during the year	(2,223,363)	(1,280,800)
Fair value on settled derivatives	(148,192)	(2,051,452)
Balance at end of year	(₱1,139,775)	₱1,231,780

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2019, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:



Cross-currency swaps:

	Notional Amount			Principal	Fair Value	Receive	Pay	US\$:PhP	US\$: CN¥	Maturity
	(In US\$)	(In PhP)	(In CN¥)							
	(In Thousands)									
Parent:	\$53,000	₱2,761,300		₱2,683,655	(₱138,710)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		5,063,500	(400,093)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,843,598	(338,579)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		5,063,500	(205,908)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		5,063,500	(170,640)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,531,750	(321,329)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		3,038,100	(390,289)	LIBOR + spread	6.4%	53.32		June 14, 2023
	25,000		¥172,100	1,265,875	(38,773)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,265,875	(36,253)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,531,750	77,144	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,531,750	60,099	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,531,750	85,546	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,531,750	59,395	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,531,750	54,713	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,531,750	62,646	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,822,860	46,028	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value		US\$:CN¥	Interest Rate	Maturity
			Principal	Interest			
			Only Swap	Rate Swap			
(In Thousands)							
SM Prime	US\$270,000	₱13,994,148	₱ 387,062	₱ 68,709	¥6.458-6.889 ^a	6.2%	January 29, 2021

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱2.0 million loss in 2019 and ₱314.4 million gain in 2018.

30. EPS Computation

	2019	2018	2017
	<i>(In Thousands Except Per Share Data)</i>		
Net income attributable to owners of the Parent (a)	₱44,568,244	₱37,078,325	₱32,923,455
Weighted average number of common shares outstanding (b)	1,204,583	1,204,583	1,204,583
EPS (a/b)	₱37.00	₱30.78	₱27.33



31. Change in Liabilities Arising From Financing Activities

	2019			2018	
	Bank Loans (Note 17)	Long-term Debt (Note 19)	Lease Liabilities (Note 27)	Bank Loans (Note 17)	Long-term Debt (Note 19)
	<i>(In Thousands)</i>				
Balance at beginning of year	₱18,885,465	₱367,036,243	₱24,781,169	₱24,172,965	₱332,853,001
Availments	25,266,865	52,895,468	5,531,627	32,199,317	70,787,135
Payments	(21,376,865)	(64,799,259)	(2,854,295)	(37,256,817)	(40,292,241)
Cumulative translation adjustment on cash flow hedges	—	(1,841,637)	—	—	(50,799)
Foreign exchange movement	—	(929,710)	—	—	3,621,088
Loan refinancing	—	—	—	(230,000)	230,000
Reclassification	(4,065,000)	4,065,000	—	—	—
Others	—	9,822	1,676,045	—	(111,941)
Balance at end of year	₱18,710,465	₱356,435,927	₱29,134,546	₱18,885,465	₱367,036,243

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

32. Reclassification

The Group reclassified certain income accounts in 2018 to conform to the 2019 presentation and classification. The reclassification has no impact on the 2019 and 2018 profit or loss and equity of the Group.

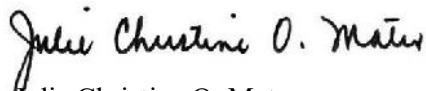


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 28, 2020. 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 the Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-3 (Group A),

August 16, 2018, valid until August 15, 2021

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125278, January 7, 2020, Makati City

February 28, 2020



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2019

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, 2019 and 2018	Attached
D. Consolidated Statements of Income	
For the years ended December 31, 2019, 2018 and 2017	Attached
E. Consolidated Statements of Comprehensive Income	
For the years ended December 31, 2019, 2018 and 2017	Attached
F. Consolidated Statements of Changes in Equity	
For the years ended December 31, 2019, 2018 and 2017	Attached
G. Consolidated Statements of Cash Flows	
For the years ended December 31, 2019, 2018 and 2017	Attached
H. Notes to Consolidated Financial Statements	Attached

Supplementary Schedules

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

Additional Components

Computation of Public Ownership	Attached
Schedule of Financial Soundness Indicators	Attached
Reconciliation of Retained Earnings Available for Dividend Declaration	Attached
Conglomerate Map	Attached

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

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
AS AT DECEMBER 31, 2019
(Amounts in Thousands Except Per Share Data)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Temporary investments*:				
BDO Unibank, Inc.		P44,731,636	P—	P1,381,870
China Banking Corporation		838,585	—	165,791
Others		11,424,641	—	432,680
		56,994,862	—	1,980,341
Time deposits – current*		30,488	—	487,897
Financial Asset at FVOCI - current:				
Shares of Stock:				
Common shares:				
Shang Properties, Inc.	189,550,548 shares	606,562	606,562	65,303
Republic Glass Holdings Corporation	14,350,000 shares	41,979	41,979	—
PICOP Resources, Inc.	40,000,000 shares	8,200	8,200	—
Export and Industry Bank, Inc.	7,829,000 shares	2,035	2,035	—
Benguet Corporation	266,757 shares	301	301	—
		659,077	659,077	65,303
Total Current Financial Assets		P57,684,427	P659,077	P2,533,541

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Financial Asset at FVOCI– noncurrent:				
Shares of Stock				
Listed:				
Ayala Corporation	23,987,551 shares	₱18,842,221	₱18,842,221	₱141,074
DMCI Holdings	10,000,000 shares	66,100	66,100	–
Manila Electric Company	105,490 shares	7,111	7,111	–
Philippine Long Distance Telephone Company	292,531 shares	2,912	2,912	4
Philippine Bank of Communications	13,431 shares	279	279	–
Prime Media Holdings, Inc.	500,000 shares	600	600	–
D.M. Wenceslao and Associates, Incorporated	79,167,800 shares	783,761	783,761	–
The Philippine Stock Exchange, Inc.	3,595,639 shares	629,237	629,237	31,642
Others		1,249,355	1,249,355	
Unlisted:				
Allfirst Equity Holdings, Inc.	95,000 shares	843,391	843,391	–
Heavenly Garden Development Corp.	25,000 shares	2,500	2,500	–
SM Insurance Brokers Services, Inc.	129,390 shares	150	150	–
Mutual Development Center, Inc.	4,633 shares	1,258	1,258	–
Manila North Tollways Corporation	732,600 shares	1,535,010	1,535,010	222,290
Wave Computing	4,764,700 shares	253,175	253,175	–
		24,217,060	24,217,060	395,010

(Forward)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Club Shares				
Cebu Golf & Country Club	1 share	₱7,300	₱7,300	₱–
Baguio Country Club	1 share	3,500	3,500	–
Mimosa Golf & Country Club, Inc.	1 share	150	150	–
Country Club of Tagaytay Highlands	1 share	650	650	–
Camp John Hay	2 shares	380	380	–
Subic Bay Yacht Club	1 share	350	350	–
Splendido Taal Golf Club	1 share	70	70	–
Calatagan Golf Club	1 share	50	50	–
Cresta del Mar	1 share	35	35	–
Ridge Resort	1 share	15	15	–
		12,500	12,500	–
		24,229,560	24,229,560	359,010
Time Deposits – noncurrent*				
		2,412,972	–	733,547
Total Noncurrent Financial Assets		₱26,642,532	₱24,229,560	₱1,092,557

**Excluding cash on hand and in banks.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL
STATEMENTS
AS AT DECEMBER 31, 2019
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Accounts Receivable – Tenants</u>							
Sanford Marketing Corporation	P64,249	P449,487	P443,469	P–	P70,267	P–	P70,267
Mainstream Business, Inc.	92,812	400,099	395,591	–	97,320	–	97,320
Market Strategic Firm, Inc.	91,336	357,110	354,373	–	94,073	–	94,073
Major Shopping Management Corporation	53,217	250,206	250,672	–	52,751	–	52,751
Metro Main Star Asia Corp.	83,545	342,103	343,058	–	82,590	–	82,590
Meridien Business Leader, Inc.	68,539	247,711	246,580	–	69,670	–	69,670
Madison Shopping Plaza, Inc.	80,093	303,762	300,364	–	83,491	–	83,491
Multi Stores Corporation	31,314	172,811	170,464	–	33,661	–	33,661
Mandurriao Star, Inc.	87,790	368,168	360,264	–	95,694	–	95,694
Metro Manila Shopping Mecca Corp.	72,474	299,870	295,394	–	76,950	–	76,950
Mercantile Stores Group, Inc.	92,877	359,878	357,098	–	95,657	–	95,657
Mindanao Shopping Destination Corp.	21,987	92,985	91,629	–	23,343	–	23,343
Manila Southern Associates, Inc.	78,080	305,591	301,687	–	81,984	–	81,984
My Shoppinglane Cebu Corp.	23,900	85,989	83,051	–	26,838	–	26,838
Mindanao Shoppers Daily Destination Corp.	25,288	97,664	95,353	–	27,599	–	27,599

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
SM Mart, Inc.	₱104,870	₱595,185	₱585,515	₱–	₱114,540	₱–	₱114,540
Supervalue, Inc.	540,119	3,425,538	3,421,533	–	544,124	–	544,124
Super Shopping Market, Inc.	279,105	2,024,708	2,015,558	–	288,255	–	288,255
Waltermart Supermarket	–	10,274	10,274	–	–	–	–
SM Retail, Inc.	7,806	262,747	250,782	–	19,771	–	19,771
Accessories_Management Corp.d.m	360	301	278	–	383	–	383
CF_Mgt. Corp.	442	–	(53)	–	495	–	495
LF_Mgt. Corp.	561	–	(27)	–	588	–	588
Shoemart, Inc. (formerly LTBG_Mgmt. Corp.)	2,564	16,410	15,578	–	3,396	–	3,396
MF_Mgt. Corp.	432	96	71	–	457	–	457
MCLG_Mgmt. Corp.	126	–	175	–	(49)	–	(49)
Masters Shoppers Venue, Inc.	13,090	47,905	45,064	–	15,931	–	15,931
Main Shopping Princess Phils., Inc.	10,910	14,604	10,910	–	14,604	–	14,604
Miniso Philippines, Inc.	(39)	4,140	4,101	–	–	–	–
Mini Depato Corp.	39,124	260,258	258,220	–	41,162	–	41,162
MLC Shoes and Bags	506	3,241	3,157	–	590	–	590
Forever Agape and Glory, Inc.	28,678	205,558	203,989	–	30,247	–	30,247
Ace Hardware Philippines, Inc.	159,731	1,346,905	1,344,124	–	162,512	–	162,512
CK Fashion Collection Corp.	40	282	281	–	41	–	41
Homeworld Shopping Corporation	39,950	321,254	316,309	–	44,895	–	44,895
International Toy World, Inc.	51,573	340,738	323,347	–	68,964	–	68,964

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Kultura Store, Inc.	₱16,098	₱111,090	₱112,867	₱–	₱14,321	₱–	₱14,321
Nursery Care Corporation	4,280	42,633	44,310	–	2,603	–	2,603
Signature Lines, Inc.	4,489	35,892	35,740	–	4,641	–	4,641
Sports Central (Manila), Inc.	28,762	234,783	225,024	–	38,521	–	38,521
Star Appliance Center, Inc.	119,002	1,031,115	1,023,055	–	127,062	–	127,062
Supplies Station, Inc.	1,551	6,794	6,896	–	1,449	–	1,449
Premium Global Essences Stores Inc	5,286	52,840	53,525	–	4,601	–	4,601
Walk EZ Retail Corp.	6,195	53,687	53,051	–	6,831	–	6,831
Mayon Shoppers Lifestyle Corporation	13,809	46,508	43,103	–	17,214	–	17,214
Middle Stone Inc.	8,085	27,093	25,911	–	9,267	–	9,267
Alfamart Trading Philippines, Inc.	7,329	56,923	58,363	–	5,889	–	5,889
Warehouse Development Company, Inc.	9,668	109,471	109,259	–	9,880	–	9,880
HMS Development Corp.	443	55,838	52,921	–	3,360	–	3,360
Costa del Hamilo, Inc.	528	–	528	–	–	–	–
Summerhills Home Development Corp.	762	–	762	–	–	–	–
Manila Southcoast Development Corp.	131	1,146	1,134	–	143	–	143
SM Development Corp.	–	–	–	–	–	–	–
SM Prime Holdings, Inc.	10,175	90,768	89,082	–	11,861	–	11,861
SM Hotels and Conventions Corp.	1,022	–	1,022	–	–	–	–
Highlands Prime, Inc.	609	–	609	–	–	–	–

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Intercontinental Development Corp.	P–	P–	P–	P–	P–	P–	P–
SM Investments Corporation	4,967	46,314	46,435	–	4,846	–	4,846
Total Accounts Receivable-Tenants	P2,490,640	P15,016,473	P14,881,830	P–	P2,625,283	P–	P2,625,283

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Due From Related Parties</u>							
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	₱1,717,862	₱1,199,285	₱1,199,285	₱–	₱1,717,862	₱–	₱1,717,862
Intercontinental Development Corporation	125,000	8,629	8,629	–	125,000	–	125,000
Mountain Bliss Resort and Development Corp. and a Subsidiary	979,317	637,118	637,118	–	979,317	–	979,317
Manila Southcoast Development Corp.	2,527,183	140,299	(127,675)	–	2,795,157	–	2,795,157
Henfels Investments Co. Inc.	–	2,337,132	–	–	2,337,132	–	2,337,132
SM Retail, Inc.	–	–	(42,575)	–	42,575	–	42,575
SM Prime Holdings, Inc.	26,063	9,163	(2,867,422)	–	2,902,648	–	2,902,648
Multi Realty Development Corporation	11,483,839	1,375,000	1,375,000	–	11,483,839	–	11,483,839
Tagaytay Resort Development Corporation	–	–	–	–	–	–	–
Prime Central Limited	4,942,075	3,542,760	6,528,533	–	1,956,302	–	1,956,302
Sto. Roberto Marketing Corp.	–	–	–	–	–	–	–
Total Due From Related Parties	₱21,801,339	₱9,249,386	₱6,710,893	₱–	₱24,339,832	₱–	₱24,339,832

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Accounts Receivable – Management and Service Fees</u>							
Sanford Marketing Corporation	₱2,376	₱267,593	₱269,969	₱–	₱–	₱–	₱–
Mainstream Business, Inc.	–	179,550	179,550	–	–	–	–
Market Strategic Firm, Inc.	–	165,157	165,157	–	–	–	–
Major Shopping Management Corporation	–	127,869	127,869	–	–	–	–
Metro Main Star Asia Corp.	–	150,777	150,777	–	–	–	–
Meridien Business Leader, Inc.	16,550	96,476	113,026	–	–	–	–
Madison Shopping Plaza, Inc.	45,994	124,517	170,511	–	–	–	–
Multi Stores Corporation	–	81,032	81,032	–	–	–	–
Mandurriao Star, Inc.	–	165,917	165,917	–	–	–	–
Metro Manila Shopping Mecca Corp.	–	141,905	141,905	–	–	–	–
Mercantile Stores Group, Inc.	–	167,878	167,878	–	–	–	–
Mindanao Shopping Destination Corp.	–	43,829	43,829	–	–	–	–
Mindanao Shoppers Daily Destination	–	65,134	65,134	–	–	–	–
Masters Shoppers Venue, Inc.	–	9,604	(649)	–	10,253	–	10,253
SM Mart, Inc.	52,705	315,572	368,277	–	–	–	–
Supervalue, Inc.	1,469	281,014	281,798	–	685	–	685
Super Shopping Market, Inc.	2,085	188,145	186,482	–	3,748	–	3,748
Manila Southern Associates, Inc.	–	137,932	137,932	–	–	–	–

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Current
My Shopping Lane Cebu Corp.	P–	P33,322	P33,322	P–	P–	P–	P–
Ace Hardware Philippines, Inc.	–	1,048	1,048	–	–	–	–
CK Fashion Collection Corp.	–	4	4	–	–	–	–
Homeworld Shopping Corporation	–	423	423	–	–	–	–
International Toy World, Inc.	–	234	234	–	–	–	–
Kultura Store, Inc.	–	84	84	–	–	–	–
Sports Central (Manila), Inc.	–	156	156	–	–	–	–
Nursery Care Corporation	–	151	151	–	–	–	–
Supplies Station, Inc.	–	112	112	–	–	–	–
Star Appliance Center, Inc.	173,877	582,809	565,079	–	191,607	–	191,607
Premium Global Essences Stores Inc.	–	–	–	–	–	–	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	6,862	–	–	–	6,862	–	6,862
SM Prime Holdings, Inc	–	189,391	189,391	–	–	–	–
Intercontinental Development Corp.	1,130	4,476	5,606	–	–	–	–
SM Development Corporation and Subsidiaries	–	–	–	–	–	–	–
SM Investments Corporation	14,000	60,783	60,703	–	14,080	–	14,080
Accounts receivable–management and service fees	P317,048	P3,582,894	P3,672,707	P–	P227,235	P–	P227,235

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Dividend Receivable							
Multi-Realty Development Corporation	P–	P263,636	P208,636	P–	P55,000	P–	P55,000
SM Retail, Inc	9,658,538	6,567,823	7,340,486	–	8,885,875	–	8,885,875
SM Prime Holdings, Inc.	–	5,023,725	5,023,725	–	–	–	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	242,550	311,850	348,480	–	205,920	–	205,920
Sto Roberto Marketing Corporation	–	176,645	176,645	–	–	–	–
Neo Group	47,500	1,634,000	1,600,750	–	80,750	–	80,750
Nagtahan Property Holdings, Inc.	–	9,873	9,873	–	–	–	–
SM Investments Corporation	–	1,347	1,347	–	–	–	–
Total Dividend Receivable	P9,948,588	P13,988,899	P14,709,942	P–	P9,227,545	P–	P9,227,545

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
AS AT DECEMBER 31, 2019

Title of Issue	Number of Shares Authorized	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by		
				Affiliates	Directors, Officers and Principal Stockholders	Others
Common Stock	2,790,000,000	1,204,582,867	—	103,538,381	529,098,367	571,946,119

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
COMPUTATION OF PUBLIC OWNERSHIP
AS AT DECEMBER 31, 2019

	"% to total I/O shares"	Number of Shares	Total
Number of Shares Issued and Outstanding (I/O)			1,204,582,867
Directors:			
Teresita T. Sy Direct	7.09%	85,440,508	
Henry Sy, Jr. Direct	7.27%	87,503,008	
Harley T. Sy Direct	7.27%	87,604,771	
Jose T. Sio Direct	0.00%	21	
Frederick C. DyBuncio Indirect	0.00%	10	
Tomas H. Lipana Direct	0.00%	150	
Alfredo E. Pascual Direct	0.00%	10	
Robert G. Vergara Direct	0.00%	100	
Subtotal	21.63%	260,548,578	

(Forward)

	"% to total I/O shares"	Number of Shares	Total
Officers -			
Franklin C. Gomez Indirect	0.00%	4,500	
Cecilia R. Patricio Direct	0.00%	130	
Epitacio B. Borcelis, Jr. Direct	0.00%	198	
Subtotal	0.00%	4,828	
Principal Stockholders:			
Hans T. Sy Direct	6.30%	75,839,675	
Indirect	1.90%	22,929,461	
Herbert T. Sy Direct	8.20%	98,753,008	
Elizabeth T. Sy Direct	5.90%	71,022,817	
Subtotal	22.30%	268,544,961	
Affiliates:			
Multi-Realty Development Corporation Indirect	0.00%	1,648	
SM Prime Holdings, Inc. Indirect	0.01%	146,104	
Belle Corporation Direct	0.00%	48,877	

(Forward)

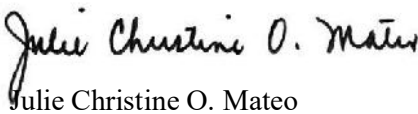
	"% to total I/O shares"	Number of Shares	Total
Syntrix Holdings, Inc.			
Direct	3.89%	46,875,000	
Sysmart Corporation			
Direct	2.40%	28,925,745	
Indirect	0.00%	41,007	
Tansmart Corporation			
Direct	1.87%	22,500,000	
Indirect	0.42%	5,000,000	
Subtotal	8.59%	103,538,381	
Total Shares held by Directors, Officers, Principal Stockholders and Affiliates	52.52%		632,636,748
Total Number of Shares Owned by the Public	47.48%		571,946,119

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 28, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125278, January 7, 2020, Makati City

February 28, 2020



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDESS INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(AMOUNT IN THOUSANDS)

			2019		2018	
i.	Current ratio	$\frac{\text{Total current assets}}{\text{Total current liabilities}}$	$\frac{248,356,980}{196,718,782}$	1.26 : 1	$\frac{241,725,462}{212,691,926}$	1.14 : 1
ii.	Acid test ratio	$\frac{\text{Total current assets less inventories and other current assets}}{\text{Total current liabilities}}$	$\frac{200,311,428}{196,718,782}$	1.02 : 1	$\frac{197,347,858}{212,691,926}$	0.93 : 1
iii.	Solvency ratio	$\frac{\text{Net income} + \text{Depreciation}}{\text{Total liabilities}}$	$\frac{88,815,157}{608,013,089}$	14.6%	$\frac{73,715,775}{568,352,259}$	13.0%
iv.	Debt-to-equity ratio	$\frac{\text{Total interest-bearing debt}}{\text{Total equity} + \text{Total interest-bearing debt}}$	$\frac{375,146,392}{911,297,870}$	41 : 59	$\frac{385,921,708}{878,211,720}$	44 : 56
	Net debt-to-equity ratio	$\frac{\text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds}}{\text{Total equity} + \text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds}}$	$\frac{298,428,563}{834,580,041}$	36 : 64	$\frac{280,051,231}{772,341,243}$	36 : 64
v.	Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	$\frac{1,144,164,567}{536,151,478}$	2.13	$\frac{1,060,642,271}{492,290,011}$	2.15
vi.	Interest rate coverage ratio	$\frac{\text{Income from operations} + \text{Depreciation and amortization}}{\text{Interest expense}}$	$\frac{124,523,534}{19,194,311}$	6.49	$\frac{101,775,298}{16,574,388}$	6.14

			2019		2018	
vii.	Return on assets	<u>Net income</u>	<u>69,444,314</u>	6.2%	<u>58,554,568</u>	5.8%
		Average assets	1,121,927,636		1,010,648,416	
viii.	Return on equity	<u>Net income attributable to equity holders of the parent</u>	<u>44,568,244</u>	11.9%	<u>37,078,325</u>	10.9%
		Average equity attributable to equity holders of the parent	375,036,631		341,061,062	
ix.	Net profit margin	<u>Net income after tax</u>	<u>69,444,314</u>	13.8%	<u>58,554,568</u>	13.0%
		Total revenue	501,651,895		449,788,167	

**RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION**

As at December 31, 2019

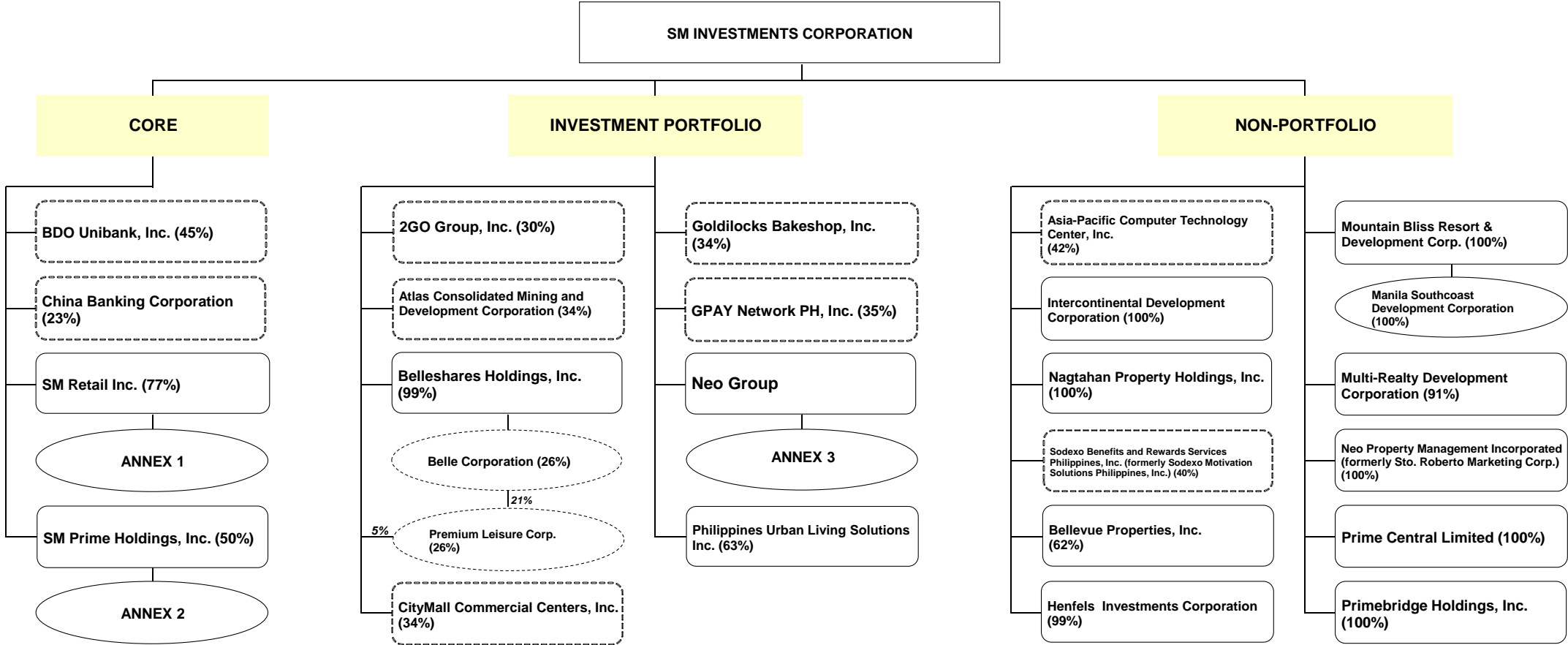
(Amounts in Thousands)

SM Investments Corporation

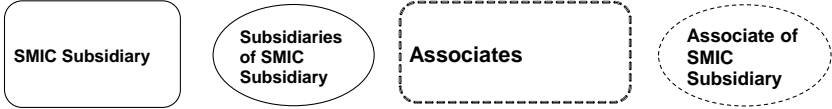
10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-1A, Pasay City 1300

Unappropriated Retained Earnings (RE), December 31, 2018		₱17,391,059
Adjustments to beginning unappropriated RE:		
Rental income from straight-line amortization in excess of rental payments	(242,666)	
Adjustments to the retained earnings as a result of adoption of new standards	(145,183)	
Actuarial loss as at January 1, 2013 recorded as expense	48,548	(339,301)
Unappropriated RE, as adjusted to available for dividend distribution, beginning		17,051,758
Add: Net income during the period closed to Retained Earnings	10,241,392	
Rental payments in excess of rental income from straight-line amortization	22,630	
Net income actually earned during the period		10,264,022
Less: Cash dividends declared during the period		(10,985,796)
Unappropriated RE, as adjusted to available for dividend distribution, ending		₱16,329,984

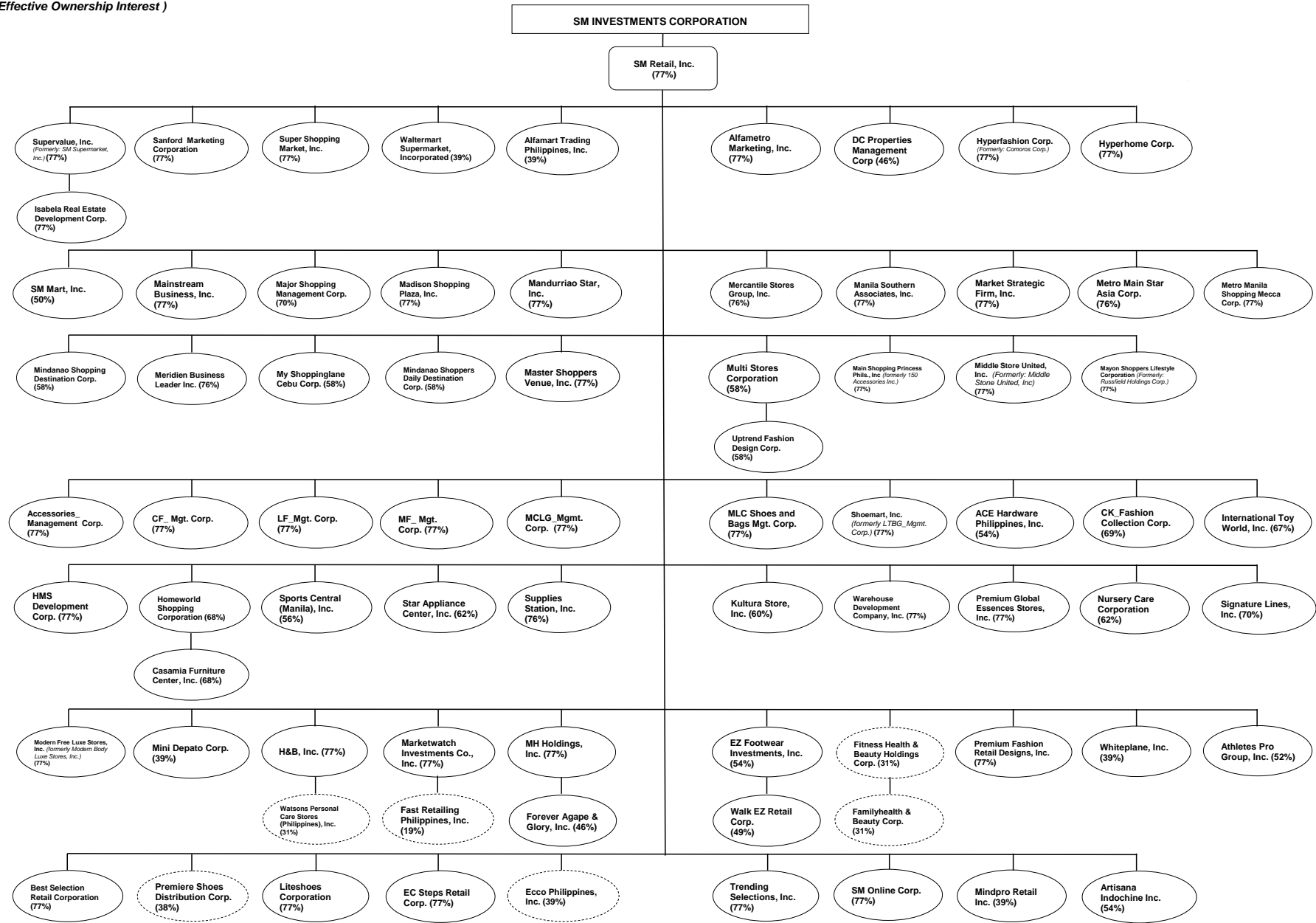
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2019
(Effective Ownership Interest)



Legend:



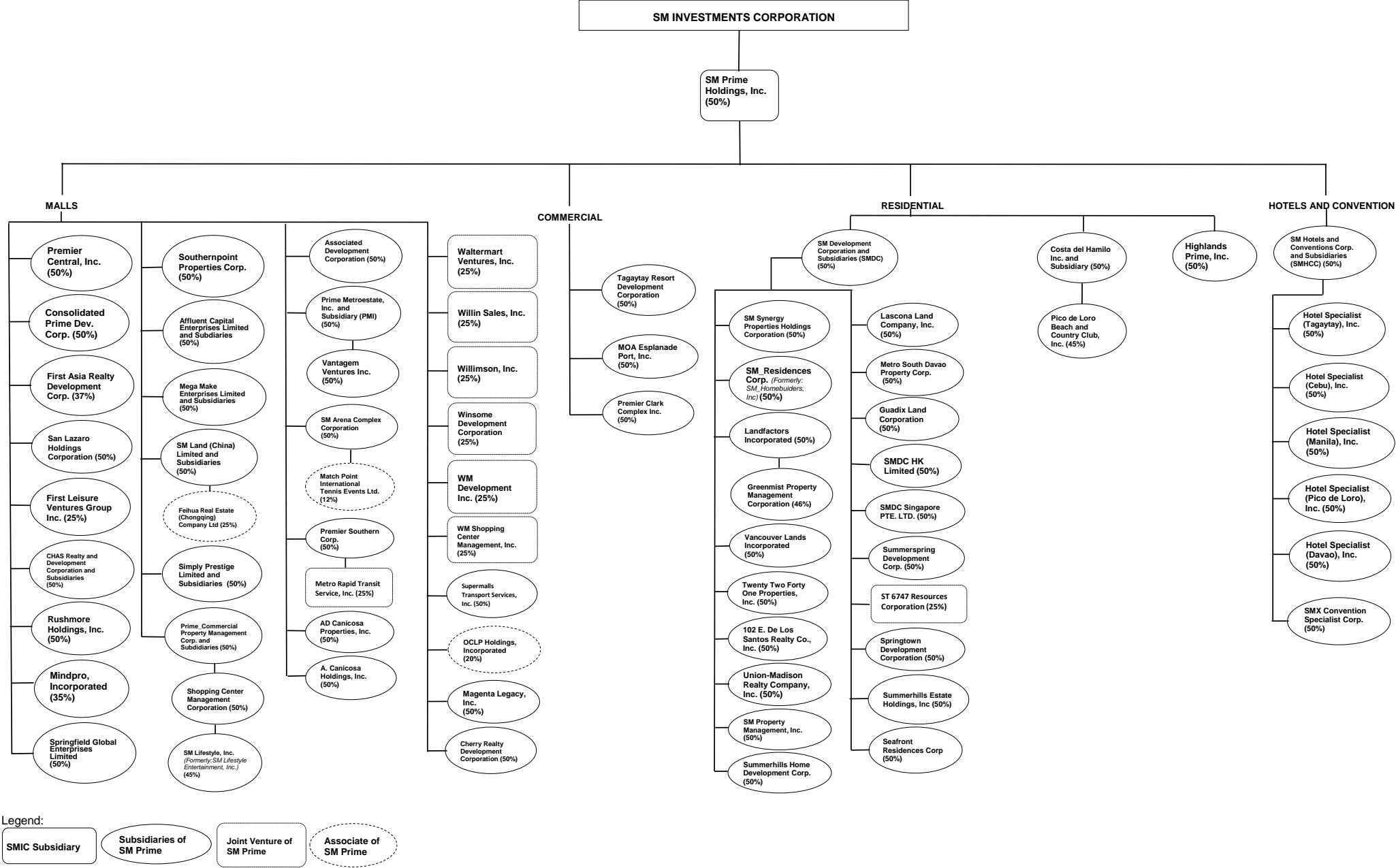
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2019
(Effective Ownership Interest)



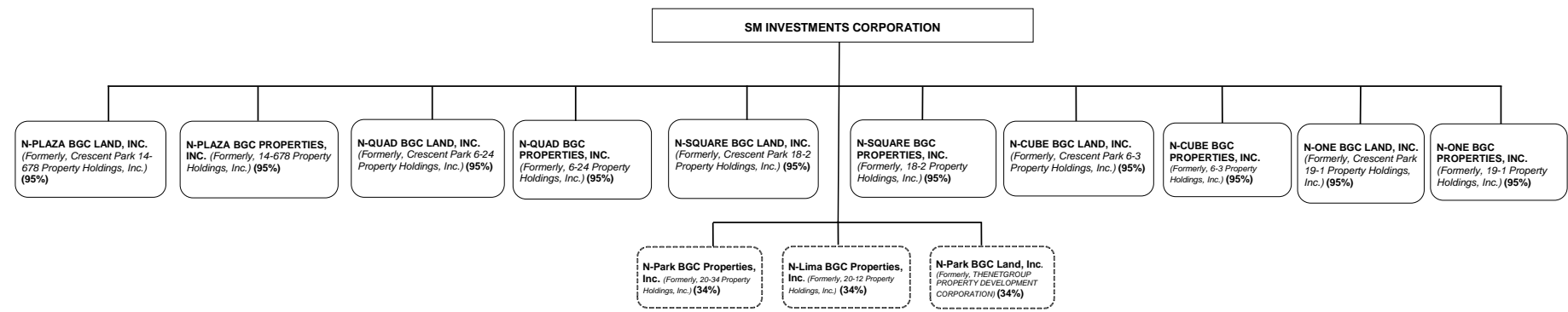
Legend:



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2019
(Effective Ownership Interest)



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2019
(Effective Ownership Interest)



Legend:

SMIC Subsidiary

Associate of SMIC