SM PRIME HOLDINGS, INC.

(A corporation duly organized and existing under Philippine laws)

OFFER SUPPLEMENT

dated [7 March 2019]

Offer of up to ₱10,000,000,000 Fixed Rate Bonds
under its ₱60,000,000,000 Fixed Rate Bonds Shelf Registration
consisting of

[•]% p.a. Series J Bonds due 2022

at an Offer Price of 100% of Face Value

to be listed and traded through
the Philippine Dealing and Exchange Corporation

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THE SAME BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY.

Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters

BDO Capital & Investment Corporation
Chinabank Capital — A subsidiary of Chinabank

Joint Bookrunners and Joint Lead Underwriters

BPI Capital Corporation
First Metro Investment Corporation — Metrobank Group

[Participating/Co-Lead Underwriters]

[•] **[•]**
[•] **[•]**

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

SM Prime Holdings, Inc.
By:

JEFFREY C. LIM
President

SUBSCRIBED AND SWORN to before me this ___ day of [●] 2019, affiant exhibiting to me his [Philippine Passport no. P2130699A issued on 5 March 2017 at DFA Manila].

Doc. No. _______
Book No. _______
Page No. _______
Series of 2019.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated. The selected audited financial information presented below as at 31 December 2016, 2017, and 2018 and for the years ended 31 December 2016, 2017, and 2018 have been derived from the Issuer's consolidated financial statements. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto.

CONSOLIDATED BALANCE SHEETS

	As at 31 December		
(*in ₱ thousands*)	2016 Audited	2017 Audited	2018 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	25,200,982	44,971,534	38,776,467
Financial assets at fair value through other comprehensive income	-	731,076	-
Investments held for trading	918,702	-	-
Receivables and contract assets	32,833,330	33,990,678	35,229,450
Condominium and residential units for sale	5,205,511	8,733,299	8,088,139
Land and development	27,228,525	22,518,138	29,486,964
Available-for-sale investments	664,606	641,300	639,316
Derivative assets	-	-	432,898
Prepaid expenses and other current assets	11,898,900	14,590,015	15,147,029
Total Current Assets	103,950,556	125,576,040	127,790,263
Noncurrent Assets			
Equity instruments at fair value through other comprehensive income – net of current portion	-	30,464,845	22,892,937
Available-for-sale investments – net of current portion	20,548,119	-	-
Property and equipment – net	1,619,601	1,493,427	1,419,111
Investment properties – net	251,499,064	273,084,146	293,574,616
Land and development – net of current portion	19,472,641	36,148,036	49,844,246
Derivative assets – net of current portion	5,102,735	3,546,694	420,035
Deferred tax assets - net	1,137,729	1,114,291	1,083,670
Investments in associates and joint ventures	22,833,079	24,566,239	26,199,380
Other noncurrent assets	39,396,608	42,423,880	80,910,060
Total Noncurrent Assets	361,609,576	412,841,558	476,344,055
Total Assets	465,560,132	538,417,598	604,134,318

	As at 31 December		
(*in ₱ thousands*)	2016 Audited	2017 Audited	2018 Audited
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	840,000	744,400	39,400
Accounts payable and other current liabilities	40,324,504	51,084,082	61,767,086
Current portion of long-term debt	7,154,151	25,344,035	25,089,624
Income tax payable	1,102,621	1,035,215	1,383,742
Total Current Liabilities	49,421,276	78,207,732	88,279,852
Noncurrent Liabilities			
Long-term debt – net of current portion	156,383,534	167,509,484	197,682,262
Tenants' and customers' deposits – net of current portion	14,812,280	16,376,024	18,676,022
Liability for purchased land – net of current	1,211,658	2,170,998	6,044,220

	As at 31 December		
(*in ₱ thousands*)	2016 Audited	2017 Audited	2018 Audited
portion			
Deferred tax liabilities – net	2,552,812	2,877,971	3,527,501
Derivative liabilities	-	777,408	335,008
Other noncurrent liabilities	5,815,028	7,624,0667	10,511,491
Total Noncurrent Liabilities	180,775,312	197,335,952	236,776,504
Total Liabilities	230,196,588	275,543,684	325,056,356
Equity Attributable to Equity Holders of the Parent			
Capital stock	33,166,300	33,166,300	33,166,300
Additional paid-in capital - net	39,545,625	39,662,168	39,953,218
Cumulative translation adjustment	1,400,373	2,110,745	1,955,999
Net unrealized gain on available-for-sale investments	17,502,410	25,489,705	19,084,597
Net fair value changes on cash flow hedges	811,625	(311,429)	(842,098)
Remeasurement gain (loss) on defined benefit obligation	39,687	(199,126)	(348,480)
Retained earnings:			
Appropriated	42,200,000	42,200,000	42,200,000
Unappropriated	100,170,486	120,125,945	143,118,153
Treasury stock	(3,355,474)	(3,287,087)	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	231,481,032	258,957,221	275,302,994
Non-controlling Interests	3,882,512	3,916,693	3,774,968
Total Equity	235,363,544	262,873,914	279,077,962
Total Liabilities and Equity	465,560,132	538,417,598	604,134,318

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December		
(*in ₱ thousands, except Per Share Data*)	2016 Audited	2017 Audited	2018 Audited
Revenue			
Rent	45,693,269	51,406,294	57,162,796
Sales:			
Real estate	24,999,811	29,434,050	35,872,552
Cinema and event ticket	4,666,686	4,767,364	5,218,434
Others	4,456,465	5,314,142	5,826,783
	79,816,231	90,921,850	104,080,565
Costs and Expenses	44,551,175	50,293,058	55,753,334
Income from Operations	35,265,056	40,628,792	48,327,231
Other Income (Charges)			
Interest expense	(4,409,614)	(5,474,422)	(7,540,045)
Interest and dividend income	1,114,931	1,214,347	1,828,776
Others - net	(981,696)	(420,856)	(649,787)
	(4,276,379)	(4,680,931)	(6,361,056)
Income Before Income Tax	30,988,677	35,947,861	41,966,175
Provision for Income Tax			
Current	6,335,370	7,531,782	8,534,428
Deferred	285,683	291,616	520,618
	6,621,053	7,823,398	9,055,046
Net Income	24,367,624	28,124,463	32,911,129
Attributable to			
Equity holders of the Parent	23,805,713	27,573,866	32,172,886
Non-controlling interests	561,911	550,597	738,243
	24,367,624	28,124,463	32,911,129
Basic/Diluted earnings per share	₱0.826	₱0.956	₱1.115

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended 31 December		
(*in ₱ thousands*)	2016 Audited	2017 Audited	2018 Audited
Net Income	24,367,624	28,124,463	32,911,129
Other Comprehensive Income (Loss)			
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) due to changes in fair value of financial assets at fair value through other comprehensive income	880,863	7,987,295	(5,287,209)
Remeasurement gain (loss) on defined benefit obligation	82,202	(244,103)	(152,405)
	963,065	7,743,192	(5,439,614)
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Net fair value changes on cash flow hedges	382,826	(1,123,054)	(530,669)
Cumulative translation adjustment	394,395	710,372	(154,746)
	1,740,286	7,330,510	(6,125,029)
Total Comprehensive Income	26,107,910	33,454,973	26,786,100
Attributable to			
Equity holders of the Parent	25,542,289	34,906,622	26,050,908
Non-controlling interests	565,621	548,351	735,192
	26,107,910	35,454,973	26,786,100

SUMMARY OF THE OFFER

This document constitutes the Offer Supplement relating to the offer described herein (the "Offer"). Terms used herein shall be deemed to be defined as set forth in the Prospectus dated 12 July 2016 (the "Prospectus"). This Offer Supplement contains the final terms of this Offer and must be read in conjunction with the Prospectus. Full information on the Issuer and this offering is only available on the basis of the combination of this Offer Supplement and the Prospectus. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement.

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing in the Prospectus.

Issuer	SM Prime Holdings, Inc.
Issue	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of SM Prime Holdings, Inc.
The Offer Size	₱10,000,000,000
Manner of Distribution	Public offering
Use of Proceeds	To finance capital expenditures for the expansion of the Issuer's commercial and residential operations (see "Use of Proceeds")
Issue Price	At par (or 100% of face value)
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00 each, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market
Offer Period	The offer of the Bonds shall commence at 9:00 am on [•] and end at 12:00 pm on [•]
Issue Date	[•]
Maturity Date	Series J Bonds : Three (3) years from Issue Date
Interest Rate	Series J Bonds : [•]% per annum
Interest Computation & Payment	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears commencing on [•] and on [•] and [•] of each year.
Final Redemption	Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds will be redeemed at par or 100% of face value on the Maturity Date.
Bond Rating	The Bonds are rated PRS Aaa by the Philippine Rating Services Corporation
Trustee	Philippine National Bank Trust Banking Group
Registrar & Paying Agent	Philippine Depository & Trust Corp.
Taxation of Bond Interest	Interest income derived by Philippine citizens or resident foreign individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the

	rate of 20%. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest. Bondholders who are exempt from or are not subject to final withholding tax on interest income or are covered by a lower final withholding tax rate by virtue of a tax treaty may claim such exemption or lower rate, as the case may be, by submitting the necessary documents as required by the Bureau of Internal Revenue and the Issuer.
Ranking	The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank pari passu and rateably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by law.
Listing	The Bonds are intended to be listed at the Philippine Dealing & Exchange Corp., or such other securities exchange licensed as such by the SEC
Governing Law	Philippine Law

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of SM Prime, the information contained in the Prospectus, this Offer Supplement, the Trust Indenture Agreement, Issue Management and Underwriting Agreement, and other agreements relevant to the Offer.

The Bonds covered by this Offer Supplement and described in this Offer Supplement is offered by the Company as the fourth tranche of the Fixed Rate Bonds under its ₱60,000,000,000 Fixed Rate Bonds Shelf Registration Program (the "Bond Program") that was authorized by a resolution of the Board of Directors of the Company dated 16 May 2016. A registration statement filed by the Company covering the Bond Program was rendered effective by the Securities and Exchange Commission ("SEC") by its order and certificate of permit to offer securities for sale for the first tranche of the Fixed Rate Bonds issued on 12 July 2016 (the "Shelf Registration"). The first tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱5,000,000,000 with a fully exercised over-subscription option of ₱5,000,000,000 and was issued on 26 July 2016 under an offer supplement dated 12 July 2016. The second tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱15,000,000,000 with a fully exercised over-subscription option of ₱5,000,000,000 and was issued on 18 May 2017 under an offer supplement dated 2 May 2017. The third tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱15,000,000,000 with a fully exercised over-subscription option of ₱5,000,000,000 and was issued on 1 March 2018 under an offer supplement dated 12 February 2018.

The SEC is expected to issue a certificate of permit to offer securities for sale for the fourth tranche of the Fixed Rate Bonds. Pursuant to such confirmation and certificate of permit to offer securities for sale, the fourth tranche of the Fixed Rate Bonds will be issued with an aggregate principal amount of ₱10,000,000,000 under this Offer Supplement.

The Series J Bonds shall be constituted by a Trust Indenture Agreement executed on [●] (the "Trust Agreement") entered into between the Issuer and Philippine National Bank Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Series J Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on [●] (the "Registry and Paying Agency Agreement") in relation to the Series J Bonds among the Issuer, Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the relevant Maturity Dates. See "Description of the Bonds — Redemption and Purchase".

The Registrar and Paying Agent has no interest in or relation to SM Prime which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to SM Prime which may conflict with its role as Trustee for the Bonds.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Paying Agency and Registry Agreement applicable to them.

FORM, DENOMINATION AND TITLE

Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Twenty Thousand Pesos (₱20,000.00) each as a minimum, in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

Title

Legal title to the Bonds shall be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Series J Bonds have been rated PRS Aaa by PhilRatings, having considered SM Prime's diversified business portfolio, business plans, growth prospects and cash flows. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremelystrong. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The rating was arrived at after considering the following factors: SM Prime's strong financial profile; its solid brand equity and operational track record; well diversified portfolio, with components that complement each other; and the Continuous and aggressive construction and expansion of development projects leadig to significant growth going forward.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

TRANSFER OF THE BONDS

Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in this Section on "Interest Payment Dates".

Transfers; Tax Status

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers on a non-Interest Payment Date (1) between taxable and non-taxable entities, (2) between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or (3) between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEx shall be allowed between tax-exempt and non tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds on PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed on PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC.

RANKING

The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations and those preferred by mandatory provisions of law).

INTEREST

Interest Payment Dates

The Series J Bonds bear interest on its principal amount from and including Issue Date at the rate of [●]% p.a., payable semi-annually in arrears starting on [●] for the first Interest Payment Date, and on [●] and [●] of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the "Record Date"), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

The Final Interest Rate for the Series J Bonds will be based on the sum of a) the 3-year PHP Philippine Government BVAL rate [at 4:00 p.m.] on the Interest Rate Setting Date and b) the Final Spread.

Interest Accrual

The Bonds shall cease to bear interest from and including the relevant Maturity Date, as defined in the discussion on "*Final Redemption*" below, unless, upon due presentation, payment of the principal in respect of the Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see *"Penalty Interest" b*elow) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on Maturity Date. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice) at par plus accrued interest.

Purchase and Cancellation

Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

The Issuer may at any time purchase any of the Bonds at market price in the open market or by tender or by contract at market price, in accordance with PDEx Rules, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances as it refers to the obligations of the Issuer and the rights and interests of the Bondholders under the Trust Indenture Agreement and the Bonds:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations; or

(b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or

Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Payments

The principal of, interest on, and all other amounts payable on, the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. SM Prime shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of disbursing payments on the Bonds. In the event the Paying Agent shall be unable or unwilling to act as such, SM Prime shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

   (i) a current and valid Bureau of Internal Revenue-certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate;

   (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax;

   (iii) for those who are claiming benefits under tax treaties, duly accomplished Certificate of Residence for tax Treaty Relief (CORTT) Form (Part I and II) or the prescribed certificate of residency with Part I (A, B and C) and II of the CORTT Form before the interest in paid or credited as required under BIR Revenue Memorandum Order No. 8-2017; and

   (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

b) Gross Receipts Tax under Section 121 of the Tax Code;

c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL RATIOS

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain the following financial ratios:

a) Debt to Equity Ratio of not more than 70:30; and
b) Interest Coverage Ratio of not less than 2.5x.

There are no other regulatory ratios that the Issuer is required to comply with.

NEGATIVE PLEDGE

So long as any Bond or coupon remains outstanding (as defined in the Trust Agreement):

(i) the Issuer will not create or permit to subsist any lien upon the whole or any part of its undertaking, assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness;

(ii) the Issuer shall procure that its Material Subsidiaries will not create or permit to subsist any lien upon the whole or any part of any Material Subsidiary's undertaking, assets or revenues present or future to secure any Public Debt or any guarantee of or indemnity in respect of any Public Debt;

(iii) the Issuer will procure that no other Person creates or permits to subsist any lien or gives any guarantee of, or indemnity upon the whole or any part of the undertaking, assets or revenues present or future of that other Person to secure any Public Debt of the Issuer, or any Material Subsidiary or to secure any guarantee of or indemnity in respect of the Public Debt of the Issuer or any Material Subsidiary; and

(iv) the Issuer will procure that no Person gives any guarantee of, or indemnity in respect of, the Public Debt of the Issuer or any Material Subsidiary

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Agreement (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by the majority of the Bondholders; and provided that this paragraph shall not apply to liens (aa) arising by operation of law; or (bb) created in respect of Indebtedness (for the avoidance of doubt, including Indebtedness in respect of which there is a preference or priority under Article 2244 of the Civil Code of the Philippines as the same may be amended from time to time) in aggregate principal amount not exceeding 15% of the Fair Market Value of Consolidated Assets as determined in the Issuer's latest audited consolidated financial statements; or (cc) encumbrance to secure contracts (other than Indebtedness) in the ordinary course of business; or (dd) encumbrance on deposits and/or financial instruments made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution for the purpose of hedging transactions; or (ee) encumbrance on an asset for taxes, assessments, governmental charges or levies on such asset, which are being contested in good faith and by appropriate proceedings diligently pursued.

EVENTS AND CONSEQUENCES OF DEFAULT

Unless there is fault or negligence on the part of the Trustee, direct or otherwise, if any of the following events occurs (the "Events of Default") and is continuing, the Trustee shall give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

(a) The Issuer shall fail to pay when due, the principal of or interest on or any amount payable under the Bonds, and such failure to pay is not remedied within ten (10) Business Days from due date thereof; or

(b) The Issuer shall default in the due performance, observance of or compliance with any other covenant contained in the Trust Agreement or the Bonds, and such default shall remain unremedied for a period of thirty (30) days after the Issuer shall have received written notice thereof from the Trustee; or

(c) Any statement, representation, or warranty made by the Issuer in the Trust Agreement or in any other document delivered or made pursuant thereto shall prove to be incorrect or untrue in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for more than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect; or

(d) The Issuer or any of its Subsidiaries fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other obligation, or commits a breach or violation of any of the terms, conditions or stipulations, of any agreement, contract or document relating to any of their respective Indebtedness, including without limitation any credit extended by Bondholders or any third Person or Persons and under the terms of which such agreement, contract or document, shall constitute an event of default thereunder, but allowing for all applicable grace periods thereunder; *provided, however*, that no Event of Default will occur under this paragraph unless the aggregate amount of Indebtedness in respect of which one or more of the events above-mentioned has or have occurred equals or is in excess of fifteen percent (15%) of the Fair Market Value of Consolidated Assets as determined and recognized in the Issuer's latest audited consolidated financial statements; or

(e) The Issuer or any of its Subsidiaries shall:

(i) become insolvent or unable to pay its Indebtedness as they mature; or

(ii) stop, suspend all or a material part of (or a particular type of) its Indebtedness; or

(iii) propose or make any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its Indebtedness, unless such deferral, rescheduling or other readjustment is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such deferral, rescheduling or other readjustment and the reasons therefor to the Bondholders through the Trustee; or

(iv) propose or make a general assignment or an arrangement or composition with or for the benefit of relevant creditors in respect of any of such Indebtedness, unless such general assignment, arrangement or composition is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such general assignment, arrangement or composition and the reasons therefor to the Bondholders through the Trustee; or

(v) take advantage of insolvency, moratorium, corporate rehabilitation or other laws for the relief of debtors; or

(vi) there shall be commenced against the Issuer or any Subsidiary any proceeding under such laws, or any judgment or order is entered by a court of competent jurisdiction for the appointment of a receiver, trustee or the like to take charge of all or substantially all of the assets of the Issuer, and such proceedings shall not have been discharged or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances; or

(f) Any act or deed or judicial or administrative proceeding in the nature of an expropriation, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of or with respect to the whole or a substantial portion of the business and operations, capital stock, property, or assets of the Issuer or any of its Material Subsidiary, shall be undertaken or instituted by any governmental authority, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or the Subsidiary concerned; or

(g) An attachment or garnishment of or levy upon a material part of the properties of the Issuer or any of its Material Subsidiary is made and is not discharged, stayed or fully bonded, within sixty (60) days (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances); or

(h) Any of the Trust Agreement or the Bonds or any material portion thereof is declared to be illegal or unenforceable, unless such illegality or enforceability is remedied within thirty (30) days of the occurrence or declaration of the illegality or unenforceability, as the case may be; or

(i) Any of the concessions, permits, rights, franchises, or privileges required for the conduct of the business and operations of the Issuer or any Subsidiary shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented in such manner as shall have a Material Adverse Effect, and such continues unremedied for a period of sixty (60) days from the date of such revocation, cancellation, termination or curtailment; or

(j) A final judgment, decree or order has been entered against the Issuer or any Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of Five Billion Pesos (₱5,000,000,000.00), and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

(k) Any lien created or assumed by the Issuer or any Subsidiary becomes unenforceable and any step is taken to enforce it (including the taking possession or the appointment of a receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within sixty (60) days of such steps being so taken unless and for so long as the Bondholders are satisfied that it is being contested in good faith with due diligence and by appropriate proceedings; or

(l) The Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer under the Trust Agreement or the Bonds; or

(m) Any event occurs which under the law has an analogous effect to any of the events referred to in the foregoing paragraphs of this section.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in item (a) of *"Events and Consequences of Default"* above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 2.0% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer shall pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Application of Payments

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Agreement and the Paying Agency and Registry Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first,* to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second,* to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; *third,* to the payment of the whole amount then due and unpaid upon the Bonds for principal, and interest, with Penalty Interest; and *fourth,* the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee. The Paying Agent shall render a monthly account of such funds under its control.

Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on *"Ability to File Suit".*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

SUBSTITUTION

Substitution of the Bonds is not comtemplated.

TRUSTEE; NOTICES

Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement, the Prospectus and this Offer Supplement and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	[Atty. Josephine Jolejole]
Address:	3rd Floor, PNB Financial Center Diosdado Macapagal Boulevard, Pasay City
Subject:	SM Prime Series "J" Bonds due 2022
Facsimile:	[+63 2 526 3379]

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing if transmitted by surface mail; (iii) on date of publication, or; (iv) on date of delivery, for personal delivery.

Binding and Conclusive Nature

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Duties and Responsibilities of the Trustee

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement and inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns or is informed of such events. The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Bonds. The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the terms and conditions of this Trust Agreement The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

(c) None of the provisions contained in the Trust Agreement, the Prospectus, or this Offer Supplement shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.

(b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six (6) months (the "*bona fide* Bondholder") may, on behalf of himself and all other Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee. Subject to the provision of Subsection (e) below, such a successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.

(c) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee. Subject to the provisions of Subsection (e) below, such successor trustee should possess all the qualifications required under pertinent laws; otherwise, the the incumbent trustee shall continue to act as such until a successor trustee is duly appointed.

(d) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions.

(e) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Issuer provided further that the resigning Trustee shall be entitled to the payment of the fee stipulated in Section 2.2 of the Trust Agreement during the Holdover Period.

Successor Trustee

(a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, the Trustee's liabilities and obligations shall immediately cease.

(b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within 10 days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date, until full payment of the Bonds, a brief report dated December 31 of the immediately preceding year with respect to:

(i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

Inspection of Documents

The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Indenture Agreement;
2. Registry and Paying Agency Agreement;
3. Articles of Incorporation and By-Laws of the Company; and
4. Registration Statement of the Company with respect to the Bonds.

MEETINGS OF BONDHOLDERS

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. However, the Trustee shall send notices in respect of any meeting called by SM Prime to obtain consent of the Bondholders to an amendment of the Trust Agreement in the following manner: a notice shall be sent to Bondholders detailing the amendments proposed and consents requested by SM Prime not earlier than sixty (60) days nor later than forty five (45) days prior to the date fixed for the meeting, if the Bondholder fails to respond as required by such notice, the Trustee shall send a second notice to such Bondholder not later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Indenture Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders except for any meeting called by SM Prime solely for the purpose of obtaining the consent of the Bondholders to an amendment of the Trust Agreement, where the failure of any Bondholder to transmit an objection to such proposal of SM Prime after at least two (2) notices to such Bondholder have been sent by the Trustee, will be considered by the Trustee as an affirmative vote (and such Bondholder will be considered present for quorum purposes by the Trustee) for the proposal of SM Prime.

Procedure for Meetings

(a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Amendments

SM Prime and the Trustee may amend these Terms and Conditions or the Bonds without notice to any Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds). However, without the consent of each Bondholder affected thereby, an amendment may not:

(1) reduce the amount of Bondholder that must consent to an amendment or waiver;

(2) reduce the rate of or extend the time for payment of interest on any Bond;

(3) reduce the principal of or extend the Maturity Date of any Bond;

(4) impair the right of any Bondholder to receive payment of principal of and interest on such Holder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;

(5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;

(6) make any Bond payable in money other than that stated in the Bond;

(7) subordinate the Bonds to any other obligation of SM Prime;

(8) release any Bond interest that may have been granted in favor of the Holders;

(9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or

(10) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, SM Prime shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the section entitled "Notices".

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Indenture Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds (after deduction of commissions and expenses) is approximately ₱9,883.22 million and is presently intended to be used by the Issuer to finance capital expenditures for the construction of the Issuer's mall and BPO projects.

Net proceeds from the Offering are estimated to be at least as follows:

For a ₱10.0 billion Issue Size		
		Total
Estimated proceeds from the sale of Bonds		₱10,000,000,000
Less: Estimated expenses		
Documentary Stamp Tax	75,000,000	
SEC Registration		
SEC Registration Fee and Legal Research	2,525,000	
SEC Publication Fee	47,040	
Underwriting and Other Professional Fees		
Underwriting and Legal Fee	30,500,000	
Audit Fees	5,000,000	
Rating Fee	2,250,000	
Listing Application Fee	150,000	
Printing Cost		
Trustee Fees	130,000	
Paying Agency and Registry Fees	225,000	
Miscellaneous fees	957,638	116,784,678
Estimated net proceeds for ₱10.0 billion Issue		₱9,883,215,322

Total Estimated Net Proceeds --- ₱9,883,215,322

Aside from the foregoing one-time costs, SM Prime expects the following annual expenses related to the Bonds:

1. The Issuer will be charged the first year Annual Maintenance Fee in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱130,000 per annum; and
3. After the Issue Date, a Paying Agency fee amounting to ₱150,000 is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.

The net proceeds of the Issue of ₱9,883.22 million shall be used primarily to finance capital expenditures of the Issuer as set out below.

(Amounts in million ₱)	**Amount and Schedule of Disbursement 2019**	**Launch date**	**Target completion date**	**Percentage completion**[1]
New Malls	**7,254**			
SM Mindpro Citimall	985	2019	2019	16%
SM City Butuan	854	2019	2019	70%
SM City Olongapo Central	774	2019	2019	59%
SM Center Dagupan	323	2019	2019	78%
SM City Daet	842	2020	2020	35%
SM Tanza	425	2020	2020	0%
SM City Bataan	383	2020	2020	0%
SM City Roxas	331	2020	2020	0%
SM City Sorsogon	306	2020	2020	0%
SM City Grand Central	725	2021	2021	7%
SM City Tuguegarao	543	2021	2021	0%
SM Naga 2	375	2021	2021	0%
SM San Pedro	219	2021	2021	0%
SM Moonwalk Paranaque	169	2021	2021	0%
Expansions/Others	**2,098**			

SM City Baguio Expansion	728	2019	2019	69%
SMOA Expansion Phase 4	129	2020	2020	33%
SM City Clark - Highline Project	533	2021	2021	0%
SM City Sta. Rosa Expansion	425	2021	2021	0%
SM City Calamba Expansion	283	2021	2021	0%
BPO	**531**			
SM Cagayan de Oro Premier	247	2019	2019	0%
SM Fairview Tower 1 (NU)	82	2019	2019	61%
SM Fairview Tower 5 (BPO)	41	2019	2019	85%
SM North EDSA Tower 1	161	2020	2020	90%

Note 1: Percentage completion as of the date of this Offer Supplement.

Any shortfall in the net proceeds for the intended uses described above shall be funded by the Issuer from internal sources such as cash flows generated from operations and/or availments from credit facilities provided to the Issuer by various financial institutions.

DESCRIPTION OF THE PROJECTS

The Issuer will directly undertake all of the projects that will be funded by the proceeds of the Offer.

For 2019, SM Prime is slated to open four new malls in the Philippines located in the provinces of Zamboanga del Sur, Agusan del Norte, Pangasinan and Zambales with a total gross floor area of approximately 196,000 square meters. SM Prime is also set to open SM City Baguio expansion with an additional gross flooar area of 32,000 square meters. Likewise, the Company plans to open three BPO towers: two in Metro Manila and one in Cagayan de Oro with total gross floor area of approximately 48,000 square meters in the same year.

For 2020, SM Prime is slated to open five new malls in the Philippines which are located in the provinces of Camarines Norte, Bataan, Capiz, Sorsogon and Cavite with a total gross floor area of approximately 222,000 square meters. In the same year, SM Prime is also set to open SM Mall of Asia expansion Phase 4 and SM City North EDSA Tower 1 with an additional gross floor area of 16,000 and 24,000 square meters, respectively.

For 2021, SM Prime is slated to open five new malls in the Philippines, three of which are located in the provinces of Cagayan, Camarines Sur and Laguna, and two in Metro Manila with a total gross floor area of approximately 223,000 square meters. SM Prime also plans to open three mall expansions: SM City Clark - Highline Project, SM City Sta. Rosa and SM City Calamba with an additional gross floor area of approximately 146,000 square meters.

Pending the above uses, the Company intends to invest the net proceeds from the Issue in short-term and medium-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

The Company undertakes that it will not use the net proceeds from the Issue for any purpose, other than as discussed above. However, the Company's plans may change, based on factors including changing macroeconomic and market conditions, or new information regarding the cost or feasibility of these plans. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to reallocate the net proceeds within the categories described above, or to alter its plans, including modifying the projects described in the foregoing and/or pursuing different projects. In the event of any substantial deviation/adjustment in the planned uses of proceeds, the Company shall inform the SEC and the stockholders within 30 days prior to its utilization.

PLAN OF DISTRIBUTION

BDO Capital & Investment Corporation, China Bank Capital Corporation, BPI Capital Corporation, First Metro Investment Corporation, and [●] pursuant to an Issue Management and Underwriting Agreement with SM Prime executed on [●] (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters and [Participating / Co-Lead Underwriters] for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite up to ₱10,000,000,000 on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

Each of the Joint Lead Underwriters has committed to underwrite the Offer on a firm basis up to the amount indicated below:

Joint Lead Underwriters	**Amount**
BDO Capital & Investment Corporation	₱[●]
China Bank Capital Corporation	₱[●]
BPI Capital Corporation	₱[●]
First Metro Investment Corporation	₱[●]
[Participating Underwriters]	
[●]	₱[●]
Total	₱10,000,000,000

There is no arrangement for the Underwriters to return to SM Prime any unsold Bonds. The Underwriting Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Bonds being made to SM Prime. There is no arrangement as well giving the Underwriters the right to designate or nominate any member to the Board of the Issuer.

SM Prime will pay the Joint Lead Underwriters a fee of 0.30% on the final aggregate nominal principal amount of the Bonds issued, which is inclusive of the fee to be ceded to Participating Underwriters. No fees will be given to Broker-Dealers selling the Bonds.

The Underwriters are duly licensed by the SEC to engage in underwriting and distribution of securities to the public. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of business with SM Prime, its parent company, SMIC, or other members of the SM Group.

BDO Capital is the wholly-owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the SM Group. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

China Bank Capital, a subsidiary of China Banking Corporation, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Bank's investment banking group, which was organized in 2012.

BPI Capital is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations as an investment house in December 1994.

First Metro Investment Corporation is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Underwriters who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Underwriters from purchasing the Bonds for their own respective accounts.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The obligations of each of the Underwriters will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

OFFER PERIOD

The Offer Period for the Bonds shall commence at 9:00 am of [•], and end at 12:00 pm of [•].

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the relevant Offer Periods by submitting to the Underwriters properly completed Applications to Purchase, together with two signature cards, and the full payment of the purchase price of the Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments, a photocopy of any one of the following valid identification cards (ID), subject to verification with the original ID: passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed from, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the duly-accepted tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by SM Prime. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

MINIMUM PURCHASE

A minimum purchase of Twenty Thousand Pesos (₱20,000.00) for each series of the Bonds shall be considered for acceptance. Purchases for each series of the Bonds in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000.00) for each series.

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to SM Prime's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

SM Prime and the Joint Lead Underwriters reserve the right to accept or reject applications to purchase the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate.

REFUNDS

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the relevant Underwriter with whom such application to purchase the Bonds was made.

PAYMENTS

The Paying Agent shall open and maintain a Payment Account, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Paying Agency and Registry Agreement, provided that beneficial ownership of the Payment Account shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the relevant interest and principal on each Payment Date.

The Paying Agent shall maintain the Payment Account for six (6) months from Maturity Date or date of early redemption. Upon closure of the Payment Account, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments.

PURCHASE AND CANCELLATION

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at market price, in accordance with PDEx Rules, without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

SECONDARY MARKET

SM Prime intends to list the Bonds in the PDEx. SM Prime may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable prevailing Philippine selling restrictions. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

CAPITALIZATION AND INDEBTEDNESS

As at 31 December 2018, the authorized capital stock of the Issuer was ₱40.0 billion divided into 40 billion common shares each with ₱1 par value per share, and its issued capital stock was ₱33.166 billion consisting of 33.166 billion common shares of ₱1 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Issuer as at 31 December 2018 and as adjusted to give effect to the issue of the Bonds. This table should be read in conjunction with the Issuer's audited consolidated financial statements as at 31 December 2018 and notes thereto, included elsewhere in this Offer Supplement.

	As at 31 December 2018	
	Actual (Audited)	**Adjusted** (Unaudited)
(in ₱ millions)		
Short-term debt		
Loans payable	39	39
Current portion of long-term debt	25,090	25,090
Total short-term debt	25,129	25,129
Long-term debt - net of current portion		
Banks and other financial institutions	197,682	197,682
The Bonds to be issued	-	9,883
Total long-term debt - net of current portion	197,682	207,565
Equity		
Equity Attributable to Equity Holders of the Parent:		
Capital stock	33,166	33,166
Additional paid-in capital - net	39,953	39,953
Cumulative translation adjustment	1,956	1,956
Net unrealized gain on available-for-sale investments	19,085	19,085
Net fair value changes on cash flow hedges	(842)	(842)
Remeasurement gain on defined benefit obligation	(348)	(348)
Retained earnings		
Appropriated	42,200	42,200
Unappropriated	143,118	143,118
Treasury stock	(2,985)	(2,985)
Total Equity Attributable to Equity Holders of the Parent	275,303	275,303
Total capitalization	**498,114**	**507,997**

Notes:

(1) Adjusted amount as at 31 December 2018 includes proceeds of ₱10.0 billion principal amount of the Bonds offered hereunder, after deduction of commissions and expenses.

(2) Total capitalization is the sum of debt and equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, (ii) the audited consolidated financial statements as at 31 December 2016, 2017, and 2018 and for the years ended 31 December 2016, 2017, and 2018 and the notes thereto.

Overview

SM Prime Holdings, Inc. was incorporated in the Philippines and registered with the SEC on 6 January 1994. It is a leading integrated Philippine real estate company with business units focused on malls, residential, commercial, and hotels and convention centers. SM Prime is the surviving company of a series of transactions involving the real estate companies of the SM Group.

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

SM Prime's registered office is at the 10th Floor, Mall of Asia Arena Annex Building, Coral Way corner J. W. Diokno Boulevard, Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Metro Manila, Philippines.

Basis of Preparation

Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso, except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements as at 31 December 2016, 2017, and 2018 and for each of the three years in the period ended 31 December 2016, 2017, and 2018 have been prepared in compliance with the PFRS.

Changes in Accounting Policies

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

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions* address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

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

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

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

(a) Classification and measurement

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

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

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

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

- Cash and cash equivalents, receivables and other financial assets (i.e., cash in escrow, time deposits) amounting to ₱98,068 million as at December 31, 2017 previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost, except for unbilled revenue from sale of real estate amounting to ₱34,083 million, beginning January 1, 2018.

- Investments held for trading amounting to ₱731 million as at December 31, 2017 were reclassified as financial assets at FVOCI.

- Equity instruments previously classified as available-for-sale (AFS) financial assets amounting to ₱31,106 million as at December 31, 2017 are now classified and measured as equity instrument at FVOCI. There were no impairment losses recognized in profit or loss for these investments in prior periods.

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

(b) Impairment

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

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

(c) Hedge accounting

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

  - Exclusion of land and uninstalled materials in the determination of POC discussed in PIC Q&A 2018-12-E

  - Accounting for significant financing component discussed in PIC Q&A 2018-12-D

  - Accounting for Common Usage Service Area (CUSA) charges discussed in PIC Q&A 2018-12-H

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

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

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

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A resulted to the reclassification of land and development from real estate inventories to investment property (see Note 10).

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

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

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

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

FINANCIAL PERFORMANCE

Year ended 31 December 2018 vs. year ended 31 December 2017

Revenue

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

Rent

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

Real Estate Sales

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

Interest Expense

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

Interest and Dividend Income

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

Other income (charges) - net

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

Provision for income tax

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

Net income attributable to Equity holders of the Parent

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liability for purchased land increased to ₱6.04 billion from ₱2.17 billion as of December 31, 2018 and

December 31, 2017, respectively, due to landbanking.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Year ended 31 December 2017 vs. year ended 31 December 2016

Revenue

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

Rent

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

Real Estate Sales

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

Interest Expense

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

Interest and Dividend Income

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

Other income (charges) - net

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

Provision for income tax

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

Net income attributable to Equity holders of the Parent

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Year ended 31 December 2016 vs. year ended 31 December 2015

Revenue

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

Rent

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

Real Estate Sales

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

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

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

Interest Expense

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

Interest and Dividend Income

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

Others - net

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

Provision for income tax

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

Net income attributable to equity holders of the Parent

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

Balance Sheet Accounts

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

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

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

Condominium and residential units for sale decreased by 36% from ₱8.16 billion to ₱5.21 billion as of December 31, 2015 and 2016, respectively, mainly due to sales take up of RFO units.

Land and development increased by 9% from ₱42.92 billion to ₱46.70 billion as of December 31, 2015 and 2016, respectively, mainly due to landbanking and construction accomplishments for the period, net of cost of sold units and transfers of RFO units to condominium and residential units for sale.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2016 and 2015, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

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

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

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

SM Prime's Commercial Properties Group has six office buildings with an estimated gross floor area of 383,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2020, respectively.

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

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Offer Supplement and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Philippine Taxation

On January 1, 2018, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" (TRAIN) Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax.

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

Taxation of Interest

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

The tax authorities have prescribed certain procedures for availment of tax treaty relief on interest under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (CORTT) Form by the non-resident before interest is credited. The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within 30 days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Company, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate or ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Company withheld taxes, or withheld the regular rate of tax imposed pursuant to the Tax Code on interest, the concerned bondholder may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty.

Value-Added Tax

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of P1.50 for each P200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 20%-35% for individuals and 30% for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of debt instruments, such as bonds, are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 30%, if the holder is a non-resident foreign corporation. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6.0%. A Bondholder shall be subject to donor's tax based on the transfer of the Bonds by gift at a uniform rate of 6.0% on the basis of the total gifts in excess of ₱250,000.00 made during a calendar year for both individuals and corporate holders, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

PARTIES TO THE OFFER

Issuer
SM PRIME HOLDINGS, INC.

Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters
BDO CAPITAL & INVESTMENT CORPORATION
CHINA BANK CAPITAL CORPORATION

Joint Bookrunners and Joint Lead Underwriters
BDO CAPITAL & INVESTMENT CORPORATION
CHINA BANK CAPITAL CORPORATION
BPI CAPITAL CORPORATION
FIRST METRO INVESTMENT CORPORATION

[Participating/Co-Lead Underwriters]
[•]

Trustee
PHILIPPINE NATIONAL BANK TRUST BANKING GROUP

Registrar and Paying Agent
PHILIPPINE DEPOSITORY AND TRUST CORPORATION

Legal Counsel to the Underwriters
ANGARA ABELLO CONCEPCION REGALA & CRUZ

Independent Auditors
SGV & CO.

SM Prime Holdings, Inc.
and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017
and Years Ended December 31, 2018, 2017 and 2016

and

Independent Auditor's Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

AS094-000088

COMPANY NAME

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
CFS		

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
2,407		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
John Nai Peng C. Ong	john.ong@smprime.com	831-1000	

CONTACT PERSON's ADDRESS

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

NOTE 1 : *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.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

SGV
Building a better working world

Adoption of PFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

Audit Response

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

SGVFS032857

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

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

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-AR-1 (Group A),
August 6, 2018, valid until August 5, 2021
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332635, January 3, 2019, Makati City

February 11, 2019

SGVFS032857

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

Audit Response

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

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

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

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-AR-1 (Group A),
 August 6, 2018, valid until August 5, 2021
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2018,
 February 14, 2018, valid until February 13, 2021
PTR No. 7332635, January 3, 2019, Makati City

February 11, 2019

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 11, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-AR-1 (Group A),
August 6, 2018, valid until August 5, 2021
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332635, January 3, 2019, Makati City

February 11, 2019

SGVFS032857

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 28 and 29)	**₱38,766,467**	₱44,371,534
Financial assets at fair value through other comprehensive income (Notes 7, 21, 28 and 29)	**–**	731,076
Receivables and contract assets (Notes 8, 15, 16, 21, 28 and 29)	**35,229,450**	33,990,678
Condominium and residential units for sale (Notes 2 and 9)	**8,088,139**	8,733,299
Land and development (Notes 2 and 10)	**29,486,964**	22,518,138
Equity instruments at fair value through other comprehensive income (Notes 11, 21, 28 and 29)	**639,316**	641,300
Derivative assets (Notes 28 and 29)	**432,898**	–
Prepaid expenses and other current assets (Notes 12, 21, 28 and 29)	**15,147,029**	14,590,015
Total Current Assets	**127,790,263**	125,576,040
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	**26,199,380**	24,566,239
Equity instruments at fair value through other comprehensive income - net of current portion (Notes 11, 21, 28 and 29)	**22,892,937**	30,464,845
Property and equipment - net (Note 13)	**1,419,111**	1,493,427
Investment properties - net (Notes 14 and 19)	**293,574,616**	273,084,146
Land and development - net of current portion (Note 10)	**49,844,246**	36,148,036
Derivative assets - net of current portion (Notes 28 and 29)	**420,035**	3,546,694
Deferred tax assets - net (Note 26)	**1,083,670**	1,114,291
Other noncurrent assets (Notes 16, 21, 25, 28 and 29)	**80,910,060**	42,423,880
Total Noncurrent Assets	**476,344,055**	412,841,558
	₱604,134,318	₱538,417,598

LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 28 and 29)	**₱39,400**	₱744,400
Accounts payable and other current liabilities (Notes 18, 21, 28 and 29)	**61,767,086**	51,084,082
Current portion of long-term debt (Notes 19, 21, 28 and 29)	**25,089,624**	25,344,035
Income tax payable	**1,383,742**	1,035,215
Total Current Liabilities	**88,279,852**	78,207,732
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	**197,682,262**	167,509,484
Tenants' and customers' deposits - net of current portion (Notes 18, 27, 28 and 29)	**18,676,022**	16,376,024
Liability for purchased land - net of current portion (Notes 18, 28 and 29)	**6,044,220**	2,170,998
Deferred tax liabilities - net (Note 26)	**3,527,501**	2,877,971
Derivative liabilities (Notes 28 and 29)	**335,008**	777,408
Other noncurrent liabilities (Notes 16, 18, 25, 28 and 29)	**10,511,491**	7,624,067
Total Noncurrent Liabilities	**236,776,504**	197,335,952
Total Liabilities *(Carried Forward)*	**325,056,356**	275,543,684

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

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Amounts in Thousands)

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

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 5, 20 and 30)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at fair value through other comprehensive income (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20) Appropriated	Retained Earnings (Note 20) Unappropriated	Treasury Stock (Notes 20 and 30)	Total	Non-controlling Interests (Note 20)	Total Equity
At January 1, 2016	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
Effect of common control business combination (Note 5)	–	241,598	–	–	–	11,653	–	(171,600)	–	81,651	38,382	120,033
At January 1, 2016	33,166,300	39,545,625	1,005,978	16,621,547	428,799	(38,805)	42,200,000	82,996,503	(3,355,474)	212,570,473	3,392,407	215,962,880
Net income for the year	–	–	–	–	–	–	–	23,805,713	–	23,805,713	561,911	24,367,624
Other comprehensive income (loss)	–	–	394,395	880,863	382,826	78,492	–	–	–	1,736,576	3,710	1,740,286
Total comprehensive income (loss) for the year	–	–	394,395	880,863	382,826	78,492	–	23,805,713	–	25,542,289	565,621	26,107,910
Cash dividends (Note 20)	–	–	–	–	–	–	–	(6,642,223)	–	(6,642,223)	–	(6,642,223)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	10,493	–	10,493	–	10,493
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(505,291)	(505,291)
Acquisition of subsidiaries (Note 14)	–	–	–	–	–	–	–	–	–	–	429,775	429,775
At December 31, 2016	₱33,166,300	₱39,545,625	₱1,400,373	₱17,502,410	₱811,625	₱39,687	₱42,200,000	₱100,170,486	(₱3,355,474)	₱231,481,032	₱3,882,512	₱235,363,544

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

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

(*Forward)*

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

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

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

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

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

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

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

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso, except when otherwise indicated.

<u>Statement of Compliance</u>

The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, and Memorandum Circular No. 3, Series of 2019, as discussed in Note 3 to the consolidated financial statements.

Basis of Consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies

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

Effective beginning on or after January 1, 2018

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

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

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

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

(a) Classification and measurement

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

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

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

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

- Cash and cash equivalents, receivables and other financial assets (i.e., cash in escrow, time deposits) amounting to ₱98,068 million as at December 31, 2017 previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost, except for unbilled revenue from sale of real estate amounting to ₱34,083 million, beginning January 1, 2018.

- Investments held for trading amounting to ₱731 million as at December 31, 2017 were reclassified as financial assets at FVOCI.

- Equity instruments previously classified as available-for-sale (AFS) financial assets amounting to ₱31,106 million as at December 31, 2017 are now classified and measured as equity instrument at FVOCI. There were no impairment losses recognized in profit or loss for these investments in prior periods.

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

(b) Impairment

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

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

(c) Hedge accounting

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

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

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

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

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

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A resulted to the reclassification of land and development from real estate inventories to investment property (see Note 10).

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement,* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

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

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

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

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

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

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

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

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

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities

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

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

Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

Effective beginning on or after January 1, 2021

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

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

  - A specific adaptation for contracts with direct participation features (the variable fee approach)

  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Effective beginning January 1, 2018

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

Financial Assets

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

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

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

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

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

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

- *Financial assets at amortized cost (debt instruments)*: The Company measures financial assets at amortized cost if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

- *Financial assets at FVOCI (debt instruments):* The Company measures debt instruments at FVOCI if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective before January 1, 2018

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

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

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

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

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

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

  - the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or

  - the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

  - the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

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

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

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

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

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

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

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

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

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

- *AFS Investments*. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

Financial Liabilities

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

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

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

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

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

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

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

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

Offsetting Financial Instruments

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

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

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

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

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

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

Derivative Financial Instruments

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

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

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

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

Effective January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

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

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

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

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

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

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

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

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

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

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

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

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

Prepaid Expenses and Other Current Assets

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

Property Acquisitions and Business Combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contract Balances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of real estate sold. Cost of real estate sold is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works. The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affects cost of real estate sold and gross profit are recognized in the year in which changes are determined.

<u>Management Fees</u>
Management fees are recognized as expense in accordance with the terms of the agreements.

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

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

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

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

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions

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

Borrowing Costs

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

Events after the Reporting Period

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

4. Segment Information

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

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

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

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

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

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

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

<u>Business Segment Data</u>

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

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

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

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

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

5. **Business Combinations**

Common Control Business Acquisitions

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

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

6. Cash and Cash Equivalents

This account consists of:

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

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

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

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

7. Financial Assets at FVOCI

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

The movements in this account are as follows:

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

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

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

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

8. Receivables and Contract Assets

This account consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Condominium and Residential Units for Sale

This account consists of:

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

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

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

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

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

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

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

10. Land and Development

This account consists of the following items stated at cost:

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

- Land and development, accounted for as investment property, amounting to ₱49,844 million and ₱36,148 million as at December 31, 2018 and 2017, respectively.

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

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

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

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

Contract fulfillment assets, included under land and development accounted for as real estate inventories, mainly pertain to unamortized portion of land cost totaling ₱1,232 million as at December 31, 2018.

The movements in "Land and development" accounted as investment property as at December 31 follow:

	2018	2017
	(In Thousands)	
Reclassifications and transfers from real estate inventories to investment property (see Note 3)	**₱32,400,724**	₱23,019,894
Land acquisitions	**17,443,522**	13,128,142
At end of year	**₱49,844,246**	₱36,148,036

11. **Equity Instruments at FVOCI**

This account consists of investments in:

	2018	2017
	(In Thousands)	
Shares of stock:		
Listed (see Note 21)	**₱23,508,022**	₱31,090,564
Unlisted	**24,231**	15,581
	23,532,253	31,106,145
Less noncurrent portion	**22,892,937**	30,464,845
	₱639,316	₱641,300

- Listed shares of stock pertain to investments in publicly-listed companies.
- Unlisted shares of stock pertain to stocks of private corporations.

Dividend income from investments at FVOCI amounted to ₱394 million, ₱354 million and ₱327 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 21).

The movements in the "Net fair value changes of equity instruments at FVOCI" account are as follows:

	2018	2017
	(In Thousands)	
At beginning of the year	**₱25,489,705**	₱17,502,410
Unrealized gain (loss) due to changes in fair value – net of transfers	**(6,405,108)**	7,987,295
At end of the year	**₱19,084,597**	₱25,489,705

12. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
	(In Thousands)	
Advances and deposits	**₱6,108,850**	₱6,322,339
Input and creditable withholding taxes	**5,658,232**	5,219,909
Prepaid taxes and other prepayments	**2,845,331**	2,619,209
Supplies and inventories	**362,833**	370,337
Cash in escrow and others (see Notes 21 and 28)	**171,783**	58,221
	₱15,147,029	₱14,590,015

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

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

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

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

  Interest income earned from the cash in escrow amounted to ₱2 million, ₱2 million and ₱3 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

13. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2016	₱218,892	₱1,644,522	₱197,959	₱351,470	₱655,387	₱–	₱3,068,230
Additions	1,323	95,147	21,676	2,808	26,824	312	148,090
Disposals/retirements	–	(174,933)	(280)	(1,004)	–	–	(176,217)
Reclassifications	–	208,684	67,958	(286,072)	9,430	–	–
Balance at December 31, 2017	220,215	1,773,420	287,313	67,202	691,641	312	3,040,103
Additions	22,629	45,439	23,516	18,723	14,491	1,557	126,355
Disposals/retirements	–	–	–	–	(679)	–	(679)
Reclassifications	6,480	3,017	3,922	4,888	(18,289)	(312)	(294)
Balance at December 31, 2018	₱249,324	₱1,821,876	₱314,751	₱90,813	₱687,164	₱1,557	₱3,165,485

(Forward)

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Accumulated Depreciation and Amortization							
Balance at December 31, 2016	₱238	₱712,107	₱140,902	₱160,156	₱435,226	₱–	₱1,448,629
Depreciation and amortization (see Note 23)	177	148,281	29,200	5,264	75,515	–	258,437
Disposals/retirements	–	(159,116)	(270)	(1,004)	–	–	(160,390)
Reclassifications	–	43,329	45,545	(105,406)	16,532	–	–
Balance at December 31, 2017	415	744,601	215,377	59,010	527,273	–	1,546,676
Depreciation and amortization (see Note 23)	792	113,826	31,371	19,112	35,284	–	200,385
Disposals/retirements	–	–	–	–	(679)	–	(679)
Reclassifications	6,480	6,268	3,327	–	(16,083)	–	(8)
Balance at December 31, 2018	₱7,687	₱864,695	₱250,075	₱78,122	₱545,795	₱–	₱1,746,374
Net Book Value							
As at December 31, 2017	₱219,800	₱1,028,819	₱71,936	₱8,192	₱164,368	₱312	₱1,493,427
As at December 31, 2018	**241,637**	**957,181**	**64,676**	**12,691**	**141,369**	**1,557**	**1,419,111**

14. Investment Properties

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2016	₱63,162,938	₱189,593,066	₱32,991,894	₱24,438,795	₱310,186,693
Effect of common control business combination (see Note 5)	–	1,047	929	–	1,976
Additions	3,766,470	4,272,682	1,769,895	18,407,346	28,216,393
Reclassifications (see Note 10)	(2,926,085)	11,289,884	1,166,605	(9,879,449)	(349,045)
Translation adjustment	75,699	2,459,685	193,841	215,944	2,945,169
Disposals	(11,538)	(162,144)	(45,913)	–	(219,595)
Balance as at December 31, 2017	64,067,484	207,454,220	36,077,251	33,182,636	340,781,591
Additions	4,331,600	8,480,962	3,016,764	14,318,076	30,147,402
Reclassifications	(1,450,592)	9,070,215	1,112,147	(8,731,468)	302
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,314)	(24,124)	(565,732)
Balance as at December 31, 2018	₱66,877,711	₱224,775,902	₱39,780,170	₱38,740,171	₱370,173,954
Accumulated Depreciation, and Amortization					
Balance as at December 31, 2016	₱1,700,431	₱37,904,008	₱19,083,190	₱–	₱58,687,629
Effect of common control business combination (see Note 5)	–	527	769	–	1,296
Depreciation and amortization (see Note 23)	194,050	5,845,746	2,660,937	–	8,700,733
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(44,868)	–	(150,910)
Balance as at December 31, 2017	1,920,473	43,981,769	21,795,203	–	67,697,445
Depreciation and amortization (see Note 23)	212,082	6,182,725	3,060,234	–	9,455,041
Reclassifications	(26,656)	179,884	(153,212)	–	16
Translation adjustment	(9,243)	(68,853)	(14,860)	–	(92,956)
Disposals	(25,807)	(61,055)	(373,346)	–	(460,208)
Balance as at December 31, 2018	₱2,070,849	₱50,214,470	₱24,314,019	₱–	₱76,599,338
Net Book Value					
As at December 31, 2017	₱62,147,011	₱163,472,451	₱14,282,048	₱33,182,636	₱273,084,146
As at December 31, 2018	**64,806,862**	**174,561,432**	**15,466,151**	**38,740,171**	**293,574,616**

Consolidated rent income from investment properties amounted to ₱57,163 million, ₱51,406 million and ₱45,693 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Consolidated costs and expenses from investment properties, which generate income, amounted to ₱31,684 million, ₱29,370 million and ₱26,295 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱38,740 million and ₱33,183 million as at December 31, 2018 and 2017, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱47,100 million and ₱40,511 million as at December 31, 2018 and 2017, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱15,738 million and ₱14,571 million as at December 31, 2018 and 2017, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,681 million, ₱2,299 million and ₱2,921 million for the years ended December 31, 2018, 2017 and 2016, respectively. Capitalization rates used range from 2.35% to 5.04%, from 2.35% to 4.77%, and from 2.35% to 4.82% for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

The Company's management believes that there were no conditions present in 2018 that would significantly reduce the fair value of the investment properties from that determined on December 31, 2015.

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

15. Investments in Associates and Joint Ventures

Investments in Associates

This pertains mainly to investments in the following companies:

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

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

As at December 31, 2018, OHI's total assets, total liabilities and total equity amounted to ₱34,563 million, ₱27,442 million and ₱7,121 million, respectively. The carrying value of investment in OHI amounted to ₱16,920 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱15,259 million.

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

The share in profit of OHI amounted to ₱727 million, ₱589 million and ₱144 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

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

The carrying value of investment in FHREC amounted to ₱1,340 million and ₱1,287 million as at December 31, 2018 and 2017, respectively. This consists of the acquisition cost amounting to ₱292 million and ₱294 million as at December 31, 2018 and 2017, respectively, and cumulative equity in net earnings amounting to ₱1,048 million and ₱993 million as at December 31, 2018 and 2017, respectively. The share in profit amounted to ₱61 million, ₱47 million and ₱60 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 28 malls across Metro Manila and Luzon. The investment in Waltermart is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

The aggregate carrying values of investment in Waltermart amounted to ₱6,304 million and ₱5,977 million as at December 31, 2018 and 2017, respectively. These consist of the acquisition costs totaling ₱5,145 million and cumulative equity in net earnings totaling ₱1,159 million and ₱832 million as at December 31, 2018 and 2017, respectively. The share in profit amounted to ₱326 million, ₱204 million and ₱242 million for the years ended December 31, 2018, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

In June 2016, SMDC entered into a shareholder's agreement through ST 6747 Resources Corporation (STRC) for the development of a high-end luxury residential project. Under the provisions of the agreement, each party shall have 50% ownership interest and is required to maintain each party's equal equity interest in STRC. The carrying value of investment in STRC amounted to ₱1,500 million and ₱1,000 million as at December 31, 2018 and 2017, respectively. The investment in STRC is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control The project was launched in 2019.

In 2016, PSC entered into a joint venture agreement through Metro Rapid Transit Services, Inc. (MRTSI) for the establishment and operation of a high quality public transport system. The investment in MRTSI is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control. The carrying values of investment in MRTSI amounted to ₱47 million and ₱31 million as at December 31, 2018 and 2017, respectively. These consist of the acquisition costs totaling ₱60 million and ₱51 million and cumulative equity in net loss totaling ₱13 million and ₱20 million as at December 31, 2018 and 2017, respectively. There is no share in other comprehensive income for the years ended December 31, 2018 and 2017.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2018 and 2017.

16. Other Noncurrent Assets

This account consists of:

	2018	2017
	(In Thousands)	
Bonds and deposits	**₱39,594,024**	₱9,518,290
Receivables from sale of real estate - net of current portion* (see Note 8)	**26,232,167**	15,854,070
Land use rights (see Note 10)	**10,403,350**	10,630,926
Time deposits (see Notes 21 and 29)	**2,392,622**	3,800,809
Deferred input tax	**1,171,185**	1,399,343
Others (see Note 25)	**1,116,712**	1,220,442
	₱80,910,060	₱42,423,880

**Pertains to noncurrent portion of unbilled revenue from sale of real estate (see Note 8).*

Bonds and Deposits

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

Land use rights
Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties were not part of the consideration paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Portions of land use rights with carrying amount of ₱319 million and ₱328 million as at December 31, 2018 and 2017, respectively, are mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Time Deposits
Time deposits with various maturities within one year were used as collateral for use of credit lines obtained by the Company from related party banks. Interest income earned amounted to ₱42 million, ₱46 million and ₱50 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

17. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱39 million and ₱744 million as at December 31, 2018 and 2017, respectively, with due dates of less than one year. These loans bear interest rates of 6.00% in 2018 and 3.00% to 3.50% in 2017.

Interest expense incurred from loans payable amounted to ₱21 million, ₱31 million and ₱22 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Trade:		
Third parties	**₱25,987,678**	₱21,997,141
Related parties (see Note 21)	**282,337**	297,093
Tenants' and customers' deposits* (see Note 27)	**31,375,908**	26,584,557
Liability for purchased land	**14,019,013**	6,423,989
Accrued operating expenses:		
Third parties	**9,338,262**	8,566,372
Related parties (see Note 21)	**455,954**	593,097
Deferred output VAT	**3,087,528**	2,345,506
Accrued interest (see Note 21)	**1,881,165**	1,355,403

(Forward)

	2018	2017
	(In Thousands)	
Payable to government agencies	**₱1,170,561**	₱1,001,818
Nontrade	**286,841**	603,048
Others	**1,458,027**	1,921,682
	89,343,274	71,689,706
Less noncurrent portion	**27,576,188**	20,605,624
	₱61,767,086	₱51,084,082

** Includes unearned revenue from sale of real estate amounting to ₱4,195 million as at December 31, 2018.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.

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

	2018	2017
	(In Thousands)	
Utilities	**₱4,484,483**	₱4,530,529
Marketing and advertising	**1,092,560**	606,729
Payable to contractors and others	**3,761,219**	3,429,114
	₱9,338,262	₱8,566,372

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

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

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

19. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance	
					2018	2017
					(In Thousands)	
Parent Company						
Philippine peso-denominated loans	January 12, 2012 – March 1, 2018	March 1, 2020 - July 26, 2026	Floating PDST-R2 + margin; 4.20%–6.74%	Unsecured	**₱112,323,200**	₱92,923,000
U.S. dollar-denominated loans	February 14, 2013 - July 30, 2018	January 29, 2018 – June 14, 2023	LIBOR + spread; semi-annual	Unsecured	**5,783,800**	19,972,000
Subsidiaries						
Philippine peso-denominated loans	June 3, 2013 - September 21, 2018	August 28, 2018 – June 18, 2025	Floating PDST-R2 + margin; 3.84%–7.55%	Unsecured	**66,490,939**	43,054,253
U.S. dollar-denominated loans	April 23, 2014 - October 16, 2017	April 14, 2019 - June 30, 2022	LIBOR + spread; semi-annual	Unsecured	**36,191,602**	34,415,944
China yuan renminbi-denominated loans	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10%; quarterly	Secured*	**3,118,514**	3,445,302
					223,908,055	193,810,499
Less debt issue cost					**1,136,169**	956,980
					222,771,886	192,853,519
Less current portion					**25,089,624**	25,344,035
					₱197,682,262	₱167,509,484

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

Parent Company

Philippine Peso-denominated Loans

This includes the following:

- A ₱20 billion fixed rate bonds issued in March 2018. The issue consists of the five-year or Series H Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 5.6630% per annum due in March 2023 and seven-year or Series I Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 6.0804% per annum due in March 2025.

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

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

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

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

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

This five-year term loans in US dollar denomination consisting of the following matured during the period:

- A US$300 million syndicated loan obtained on various dates in 2013. The loans bear an interest rate based on LIBOR plus spread and matured in March 2018. The portion of the loan amounting to US$150 million is hedged against interest rate risk and foreign exchange risk.

- A US$200 million syndicated loan obtained in January 2013. The loan bears an interest rate based on LIBOR plus spread, matured in January 2018. This loan is hedged against interest rate and foreign exchange risks.

U.S. Dollar-denominated Loans

- This includes a US$110 million syndicated loan obtained in July 2018. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity in June 2023. This loan is hedged against foreign exchange risks (see Notes 28 and 29).

Subsidiaries

U.S. Dollar-denominated Loans

- This includes a US$270 million syndicated loan obtained in March 2016. The loans bear an interest rate based on LIBOR plus spread, with maturity in January 2021. This loan is hedged against interest rate risks (see Notes 28 and 29).

China Yuan Renminbi-denominated Loans

- This includes a ¥159 million obtained in July 2015. The loan is payable in quarterly installments until June 2020. The loan carries an interest rate of 4.75%. Portions of investment properties and land use rights located in China with total carrying value of ₱1,886 million and ₱1,898 million as at December 31, 2018 and 2017, respectively, are mortgaged as collaterals to secure the loan (see Notes 14 and 16).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.75:0.25 and interest coverage ratio of not less than 2.50:1.00 and material change in ownership or control. As at December 31, 2018 and 2017, the Company is in compliance with the terms of its loan covenants.

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

Interest expense incurred from long-term debt amounted to ₱7,451 million, ₱5,251 million and ₱4,135 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 24).

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

	2018	2017
	(In Thousands)	
Balance at beginning of the year	**₱956,980**	₱1,041,797
Additions	**549,560**	297,730
Amortization	**(370,371)**	(382,547)
Balance at end of the year	**₱1,136,169**	₱956,980

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

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱25,089,624	(₱316,070)	₱24,773,554
More than 1 year to 5 years	144,120,691	(744,576)	143,376,115
More than 5 years	54,697,740	(75,523)	54,622,217
	₱223,908,055	(₱1,136,169)	₱222,771,886

20. **Equity**

Capital Stock
As at December 31, 2018 and 2017, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued.

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

	2018	2017
	(In Thousands)	
Balance at beginning of the year	**28,837,814**	28,833,608
Reissuance of treasury shares	**18,598**	4,206
Balance at end of the year	**28,856,412**	28,837,814

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

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

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,407 as at December 31, 2018.

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

	2018	2017
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,549,808**	₱33,266,992
Net equity adjustments from common control business combinations (see Note 5)	**9,309,730**	9,309,730
Arising from acquisition of non-controlling interests	**(2,906,320)**	(2,914,554)
As presented in the consolidated balance sheets	**₱39,953,218**	₱39,662,168

Retained Earnings
In 2018, the BOD approved the declaration of cash dividend of ₱0.35 per share or ₱10,108 million to stockholders of record as of May 9, 2018, ₱9 million of which was received by SMDC. This was paid on May 23, 2018. In 2017, the BOD approved the declaration of cash dividend of ₱0.26 per share or ₱7,509 million to stockholders of record as of May 12, 2017, ₱12 million of which was received by SMDC. This was paid on May 25, 2017. In 2016, the BOD approved the declaration of cash dividend of ₱0.23 per share or ₱6,642 million to stockholders of record as of April 29, 2016, ₱10 million of which was received by SMDC. This was paid on May 12, 2016

As at December 31, 2018 and 2017, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2019, the Company expects to incur capital expenditures of approximately ₱80 billion.

The retained earnings account is restricted for the payment of dividends to the extent of ₱75,721 million and ₱65,156 million as at December 31, 2018 and 2017, respectively, representing the cost of shares held in treasury (₱2,985 million and ₱3,287 million as at December 31, 2018 and 2017, respectively) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱72,736 million and ₱61,869 million as at December 31, 2018 and 2017, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock

As at December 31, 2018 and 2017, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱2,985 million and ₱3,287 million, respectively. The movement of the treasury stock of the Company are as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**4,328,486**	4,332,692
Sale of treasury shares	**(18,598)**	(4,206)
Balance at end of year	**4,309,888**	4,328,486

21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2018 and 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash.

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

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2018	2017	2016	**2018**	2017	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱45,391**	₱55,459	₱47,870	**₱–**	₱–		
Rent receivable	**–**	–	–	**4,967**	5,844	Noninterest-bearing	Unsecured; not impaired
Management fee income	**2,885**	–	–	**–**	–		
Service income	**57,600**	48,000	31,368	**–**	–		
Service fee receivable	**–**	–	–	**14,000**	4,497	Noninterest-bearing	Unsecured; not impaired
Rent expense	**105,583**	102,231	83,335	**–**	–		
Accrued rent payable	**–**	–	–	**(808)**	(2,875)	Noninterest-bearing	Unsecured
Trade payable	**6,539**	5,952	–	**(16,805)**	(10,266)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**134,050**	144,643	Noninterest-bearing	Unsecured; not impaired
Dividend income	**1,198**	1,135	1,035	**–**	–		
Banking and Retail Group							
Cash and cash equivalents	**160,983,099**	171,812,742	339,752,362	**24,890,200**	32,118,321	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	**–**	122,660	–	**–**	731,076	Noninterest-bearing	Unsecured; not impaired
Rent income	**16,079,276**	14,558,585	13,600,314	**–**	–		
Rent receivable	**–**	–	–	**3,006,209**	2,656,892	Noninterest-bearing	Unsecured; not impaired
Service income	**28,559**	30,023	36,944	**–**	–		
Management fee income	**999**	5,979	4,164	**–**	–		
Management fee receivable	**–**	–	–	**14,469**	23,933	Noninterest-bearing	Unsecured; not impaired
Deferred rent income	**–**	–	–	**(8,950)**	(23,548)	Noninterest bearing	Unsecured
Interest income	**374,432**	297,719	164,128	**–**	–		
Accrued interest receivable	**–**	–	–	**29,963**	51,829	Noninterest-bearing	Unsecured; not impaired
Receivable financed	**1,663,822**	4,923,847	3,297,217	–	–	Without recourse	Unsecured
Time deposits	**–**	–	–	**2,382,597**	3,709,270	Interest-bearing	Unsecured
Loans payable and long-term debt	**9,205,385**	386	1,275,667	**(9,824,904)**	(907,953)	Interest-bearing	Combination of secured and unsecured
Interest expense	**252,296**	139,292	21,923	**–**	–		
Accrued interest payable	**–**	–	–	**(3,878)**	(518)	Noninterest-bearing	Unsecured
Rent expense	**634**	1,004	1,203	**–**	–		
Trade payable	**38,510**	47,803	46,583	**(138,782)**	(100,272)	Noninterest-bearing	Unsecured
Management fee expense	**11,217**	3,093	2,748	**–**	–		
Accrued management fee	**–**	–	–	**–**	(17,030)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**15,011,058**	18,740,177	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	**157,719**	–	–	**157,719**	50,881	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	**225,357**	212,740	187,908	**–**	–		
Other Related Parties							
Rent income	**178,572**	119,238	₱62,743	**–**	–		
Rent receivable	**–**	–	–	**13,574**	53,722	Noninterest-bearing	Unsecured; not impaired
Service income	**77,579**	92,943	72,387	**–**	–		
Service fee receivable	**–**	–	–	**62**	–		
Management fee income	**6,859**	2,799	3,532	**–**	–		
Management fee receivable	**–**	–	–	**7,993**	7,939		
Rent expense	**8,311**	5,735	5,164	**–**	–		
Accrued expenses	**–**	–	–	**(455,146)**	(573,192)	Noninterest-bearing	Unsecured
Trade payable	**–**	176,761	–	**(126,750)**	(186,555)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**–**	2,853,947	Noninterest-bearing	Unsecured; not impaired
Dividend income	**88,266**	87,885	69,878	**–**	–		

Due from related parties amounted to nil and ₱0.13 million as at December 31, 2018 and 2017, respectively, which are noninterest-bearing and are not impaired. The amount of transactions with related parties amounted to nil, ₱0.02 million and nil for the years ended December 31, 2018, 2017 and 2016, respectively.

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent
The Company has existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Service Fees
The Company provides manpower and other services to affiliates.

Dividend Income
The Company's equity instruments at FVOCI of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates). Such accounts earn interest based on prevailing market interest rates (see Notes 6 and 7).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

The Company also entered into financing arrangements with BDO and China Bank. There were no assigned receivables on a with recourse basis to BDO and China Bank in 2018 and 2017 (see Note 8).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2018, 2017 and 2016 consist of short-term employee benefits amounting to ₱1,104 million, ₱930 million and ₱712 million, respectively, and post-employment benefits (pension benefits) amounting to ₱165 million, ₱144 million and ₱98 million, respectively.

22. Other Revenue

Details of other revenue follows:

	2018	2017	2016
		(In Thousands)	
Food and beverages	**₱1,668,705**	₱1,620,269	₱1,158,033
Amusement and others	**911,580**	851,264	844,394
Net merchandise sales	**902,730**	740,356	764,207
Bowling and ice skating fees	**253,911**	219,378	253,229
Advertising income	**214,473**	202,000	236,529
Others	**1,875,384**	1,680,875	1,200,073
	₱5,826,783	₱5,314,142	₱4,456,465

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

23. Costs and Expenses

This account consists of:

	2018	2017	2016
		(In Thousands)	
Cost of real estate sold (see Notes 9 and 10)	**₱17,769,208**	₱15,151,804	₱13,117,141
Administrative (see Notes 21 and 25)	**11,329,111**	10,860,321	9,607,265
Depreciation and amortization (see Notes 13 and 14)	**9,655,426**	8,959,170	7,814,344
Marketing and selling	**5,530,794**	4,788,603	4,644,125
Business taxes and licenses	**4,790,129**	4,406,480	3,803,376
Film rentals	**2,829,629**	2,600,839	2,567,038
Rent (see Notes 21 and 27)	**1,729,671**	1,597,970	1,450,981
Insurance	**518,168**	475,732	463,462
Others	**1,601,198**	1,452,139	1,083,443
	₱55,753,334	₱50,293,058	₱44,551,175

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

24. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2018	2017	2016
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱1,297,364**	₱723,235	₱651,506
Time deposits (see Note 16)	**42,160**	46,424	50,130
Financial asset at FVTPL (see Note 7)	–	14,891	17,655
Others (see Notes 8 and 12)	**76,924**	59,288	53,955
	₱1,416,448	₱843,838	₱773,246

(Forward)

	2018	2017	2016
		(In Thousands)	
Interest expense on:			
Long-term debt (see Note 19)	**₱7,451,159**	₱5,251,144	₱4,134,944
Loans payable (see Note 17)	**21,054**	30,737	22,415
Others	**67,832**	192,541	252,255
	₱7,540,045	₱5,474,422	₱4,409,614

25. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2018.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2018	2017	2016
		(In Thousands)	
Current service cost	**₱296,007**	₱286,297	₱175,449
Net interest income	**(13,279)**	(32,062)	(20,563)
	₱282,728	₱254,235	₱154,886

Net Pension Asset (included under "Other noncurrent assets" account)

	2018	2017
	(In Thousands)	
Fair value of plan assets	**₱1,427,448**	₱1,822,755
Defined benefit obligation	**(1,339,655)**	(1,619,868)
Effect of asset ceiling limit	**(15,148)**	(28,759)
Net pension asset	**₱72,645**	₱174,128

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2018	2017
	(In Thousands)	
Defined benefit obligation	**₱1,160,163**	₱544,951
Fair value of plan assets	**(1,023,976)**	(454,472)
Net pension liability	**₱136,187**	₱90,479

The changes in the present value of the defined benefit obligation are as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of the year	**₱2,164,819**	₱1,489,462
Effect of common control business combination		
(see Note 5)	–	17,133
Actuarial loss (gain):		
Experience adjustments	**433,932**	284,102
Changes in financial assumptions	**(495,054)**	81,882
Changes in demographic assumptions	**14,117**	(35,627)
Current service cost	**296,007**	286,297
Interest cost	**125,370**	92,538
Benefits paid	**(57,447)**	(49,745)
Transfer to (from) the plan	**10,109**	(1,223)
Other adjustments	**7,965**	–
Balance at end of the year	**₱2,499,818**	₱2,164,819

The above present value of defined benefit obligation are broken down as follows:

	2018	2017
	(In Thousands)	
Related to pension asset	**₱1,339,655**	₱1,619,868
Related to pension liability	**1,160,163**	544,951
	₱2,499,818	₱2,164,819

The changes in the fair value of plan assets are as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱2,277,227**	₱1,985,776
Effect of common control business combination		
(see Note 5)	–	16,605
Contributions	**356,040**	260,810
Interest income	**140,309**	129,158
Benefits paid from assets	**(57,447)**	(47,745)
Transfer to (from) the plan and others	**10,109**	(1,223)
Remeasurement loss	**(274,814)**	(66,154)
Balance at end of year	**₱2,451,424**	₱2,277,227

The changes in the fair value of plan assets are broken down as follows:

	2018	2017
	(In Thousands)	
Related to pension asset	**₱1,427,448**	₱1,822,755
Related to pension liability	**1,023,976**	454,472
	₱2,451,424	₱2,277,227

The changes in the effect of asset ceiling limit are as follows:

	2018	2017
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱28,759**	₱74,352
Remeasurement gain	**(15,271)**	(50,151)
Interest cost	**1,660**	4,558
	₱15,148	₱28,759

The carrying amounts and fair values of the plan assets as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱203,807**	**₱203,807**	₱151,181	₱151,181
Investments in:				
Common trust funds	**799,380**	**799,380**	825,023	825,023
Government securities	**715,089**	**715,089**	536,290	536,290
Debt and other securities	**662,123**	**662,123**	629,506	629,506
Equity securities	**56,500**	**56,500**	84,685	84,685
Other financial assets	**14,525**	**14,525**	50,542	50,542
	₱2,451,424	**₱2,451,424**	₱2,277,227	₱2,277,227

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 3.09% to 8.75% and have maturities ranging from 2019 to 2030;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 3.80% to 7.51% and have maturities ranging from 2019 to 2025;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the years ended December 31:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**₱203,807**	₱151,181
Interest income from cash and cash equivalents	**10,328**	3,983
Investments in common trust funds	**799,380**	825,023
Loss from investments in common trust funds	**(3,858)**	(28,901)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2018	2017	2016
Discount rate	**7.4%–7.8%**	5.7%–5.8%	5.4%–6.1%
Future salary increases	**3.0%–9.0%**	4.0%–10.0%	3.0%–9.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2018	2017	2016
		(In Thousands)	
Actuarial loss (gain)	**₱227,809**	₱396,511	(₱119,406)
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**(15,271)**	(50,151)	11,919
	₱212,538	₱346,360	(₱107,487)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018 and 2017, respectively, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2018		
Discount rates	**50**	**(₱101,386)**
	(50)	**109,328**
Future salary increases	**100**	**221,857**
	(100)	**(194,777)**
2017		
Discount rates	50	(₱94,965)
	(50)	103,147
Future salary increases	100	183,672
	(100)	(159,152)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018 and 2017, respectively:

Year 2018	**Amount**
	(In Thousands)
2019	**₱390,127**
2020	**233,043**
2021–2022	**671,628**
2023–2028	**2,219,158**

Year 2017	Amount
	(In Thousands)
2018	₱278,502
2019	171,403
2020–2021	522,821
2022–2027	1,611,990

The Company expects to contribute about ₱365 million to its defined benefit pension plan in 2019.

The weighted average duration of the defined benefit obligation is 9.7 years and 9.8 years as of December 31, 2018 and 2017, respectively.

26. **Income Tax**

The details of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
NOLCO	**₱508,314**	₱560,589
Excess of fair value over cost of investment properties and others	**364,249**	380,872
Unrealized foreign exchange losses	**231,560**	230,856
Provision for ECLs on receivables	**105,090**	101,858
Unamortized past service cost	**17,443**	13,662
Deferred rent income	**4,073**	18,479
MCIT	**3,394**	8,370
Others	**303,857**	255,884
	1,537,980	1,570,570
Deferred tax liabilities:		
Unrealized gross profit on sale of real estate	**(2,000,677)**	(1,339,441)
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(1,791,729)**	(1,817,431)
Pension asset	**(40,201)**	(34,041)
Others	**(149,204)**	(143,337)
	(3,981,811)	(3,334,250)
Net deferred tax liabilities	**(₱2,443,831)**	(₱1,763,680)

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets - net	**₱1,083,670**	₱1,114,291
Deferred tax liabilities - net	**(3,527,501)**	(2,877,971)
	(₱2,443,831)	(₱1,763,680)

As at December 31, 2018 and 2017, unrecognized deferred tax assets amounted to ₱430 million and ₱69 million, respectively, bulk of which pertains to NOLCO.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2018	2017	2016
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	**(0.9)**	(0.9)	(0.4)
Availment of income tax holiday	**(4.0)**	(4.4)	(3.4)
Interest income subjected to final tax and dividend income exempt from income tax	**(1.2)**	(1.0)	(0.7)
Nondeductible expenses and others	**(2.3)**	(1.9)	(4.1)
Effective tax rates	**21.6%**	21.8%	21.4%

27. **Lease Agreements**

Company as Lessor

The Company’s lease agreements with its mall tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Also, the Company’s lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2018	2017
	(In Millions)	
Within one year	**₱3,838**	₱2,976
After one year but not more than five years	**9,944**	6,540
After more than five years	**3,259**	3,672
	₱17,041	₱13,188

Consolidated rent income amounted to ₱57,163 million, ₱51,406 million and ₱45,693 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Company as Lessee
The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

The Company's future minimum lease payables under the noncancellable operating leases as at December 31 are as follows:

	2018	2017
	(In Millions)	
Within one year	**₱999**	₱983
After one year but not more than five years	**3,623**	4,080
After five years	**26,447**	26,964
Balance at end of year	**₱31,069**	₱32,027

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,730 million, ₱1,598 million and ₱1,451 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 23).

28. **Financial Risk Management Objectives and Policies**

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, financial assets at FVTPL, accrued interest and other receivables, equity instruments at FVOCI and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2018 and 2017, after taking into account the effect of interest rate swaps, approximately 80% and 83%, respectively, of its long-term borrowings, are at a fixed rate of interest (see Note 29).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2018 and 2017:

				2018			
	Interest Rate	**1–<2 Years**	**2–<3 Years**	**3–<4 Years**	**4–<5 Years**	**=>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated corporate notes	**5.25%–5.88%**	**₱8,700**	**₱5,708,520**	**₱499,460**	**₱2,460**	**₱2,437,860**	**₱8,657,000**
Philippine peso-denominated notes	**3.84%–7.55%**	**₱6,606,800**	**₱906,800**	**₱5,811,800**	**₱11,908,800**	**₱17,500,000**	**42,734,200**
Philippine peso-denominated retail bonds	**4.20%–6.08%**	**₱–**	**₱15,035,740**	**₱20,331,520**	**₱–**	**₱54,632,740**	**90,000,000**
Other bank loans	**4.28%–6.25%**	**₱388,939**	**₱250,000**	**₱–**	**₱–**	**₱–**	**638,939**
Floating Rate							
U.S. dollar-denominated five-year term loans	**LIBOR + spread**	**$300,000**	**$–**	**$270,000**	**$100,000**	**$110,000**	**41,975,402**
Philippine peso-denominated corporate notes	**PDST-R2+margin%**	**₱100,000**	**₱100,000**	**₱100,000**	**5,160,000**	**₱–**	**5,460,000**
Philippine peso-denominated notes	**PDST-R2+margin%**	**₱1,325,000**	**₱1,725,000**	**₱3,225,000**	**₱2,925,000**	**₱22,124,000**	**31,324,000**
China yuan renminbi-denominated five-year loan	**CBC rate less 10%**	**¥40,857**	**¥19,382**	**¥–**	**¥347,900**	**¥–**	**3,118,514**
							223,908,055
Less debt issue cost							**1,136,169**
							₱222,771,886

				2017			
	Interest Rate	1–<2 Years	2–<3 Years	3–<4 Years	4–<5 Years	=>5 Years	Total
Fixed Rate							
Philippine peso-denominated corporate notes	5.25%–5.88%	₱8,700	₱8,700	₱5,708,520	₱499,460	₱2,440,320	₱8,665,700
Philippine peso-denominated notes	3.84%–6.74%	₱4,606,800	₱6,606,800	₱906,800	₱5,106,800	₱19,118,800	36,346,000
Philippine peso-denominated retail bonds	4.20%–5.74%	₱–	₱–	₱15,035,740	₱20,331,520	₱34,632,740	70,000,000
Other bank loans	3.13%–5.00%	₱25,093	₱49,907	₱375,000	₱263,553	₱250,000	963,553
Floating Rate							
U.S. dollar-denominated five-year term loans	LIBOR + spread	$400,000	$300,000	$–	$270,000	$100,000	54,387,944
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱100,000	₱5,160,000	5,560,000
Philippine peso-denominated notes	PDST-R2+margin%	₱318,000	₱1,118,000	₱1,218,000	₱118,000	₱11,670,000	14,442,000
China yuan renminbi-denominated five-year loan	CBC rate less 10%	¥40,847	¥40,857	¥19,382	¥–	¥347,900	3,445,302
							193,810,499
Less debt issue cost							956,980
							₱192,853,519

LIBOR - London Interbank Offered Rate
PDST-R2 - Philippine Treasury Reference Rates - PM
CBC - Central Bank of China

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2018	**100**	**(₱67,204)**
	50	**(33,602)**
	(100)	**67,204**
	(50)	**33,602**
2017	100	(₱73,686)
	50	(36,843)
	(100)	73,686
	(50)	36,843

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's policy is to manage its foreign currency risk mainly from its debt issuances which are denominated in U.S. dollars and subsequently remitted to China to fund its capital expenditure requirements by entering into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets amounted to US$43 million (₱2,252 million) as at December 31, 2018 and US$97 million (₱4,864 million) as at December 31, 2017. The Company's foreign currency-denominated monetary liabilities amounted to nil as at December 31, 2018 and US$300 million (¥1,954 million) as at December 31, 2017.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ¥6.88 to US$1.00 and ¥6.51 to US$1.00, the China Yuan Renminbi to U.S. dollar exchange rate as at December 31, 2018 and 2017, respectively and ₱52.58 to US$1.00 and ₱49.93 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2018 and 2017, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate and U.S. dollar to China yuan renminbi, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of $	Effect on Income Before Tax	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)		*(In Thousands)*
2018	**1.50**	**₱16,063**	**1.50**	**¥–**
	1.00	**10,709**	**1.00**	**–**
	(1.50)	**(16,063)**	**(1.50)**	**–**
	(1.00)	**(10,709)**	**(1.00)**	**–**
2017	1.50	₱36,534	1.50	(¥112,622)
	1.00	24,356	1.00	(75,082)
	(1.50)	(36,534)	(1.50)	112,622
	(1.00)	(24,356)	(1.00)	75,082

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, financial assets at FVTPL and equity instruments at FVOCI amounting to ₱38,766 million, nil and ₱639 million, respectively, as at December 31, 2018 and ₱44,372 million, ₱731 million and ₱641 million, respectively, as at December 31, 2017 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2018			
	Within 1 Year	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Loans payable	**₱39,400**	**₱–**	**₱–**	**₱39,400**
Accounts payable and other current liabilities*	**49,454,491**	**–**	**–**	**49,454,491**
Long-term debt (including current portion)	**35,048,713**	**178,038,797**	**50,800,897**	**263,888,407**
Derivative liabilities	**–**	**335,008**	**–**	**335,008**
Liability for purchased land - net of current portion	**–**	**6,044,220**	**–**	**6,044,220**
Tenants' deposits - net of current portion	**–**	**18,177,479**	**–**	**18,177,479**
Other noncurrent liabilities**	**–**	**7,078,916**	**–**	**7,078,916**
	₱84,542,604	**₱209,674,420**	**₱50,800,897**	**₱345,017,921**

	2017			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
	(In Thousands)			
Loans payable	₱744,400	₱–	₱–	₱744,400
Accounts payable and other current liabilities*	41,316,183	–	–	41,316,183
Long-term debt (including current portion)	33,076,813	138,804,369	54,768,749	226,649,931
Derivative liabilities	–	777,408	–	777,408
Liability for purchased land - net of current portion	–	2,170,998	–	2,170,998
Tenants' deposits - net of current portion	–	16,039,216	–	16,039,216
Other noncurrent liabilities**	–	5,126,222	–	5,126,222
	₱75,137,396	₱162,918,213	₱54,768,749	₱292,824,358

* *Excluding nonfinancial liabilities amounting to ₱12,313 million and ₱9,768 million as at December 31, 2018 and 2017, respectively.*
** *Excluding nonfinancial liabilities amounting to ₱3,433 million and ₱2,498 million as at December 31, 2018 and 2017, respectively.*

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments (see Notes 6, 8, 11 and 12).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The fair values of these financial assets are disclosed in Note 29. For receivables from real estate sale, the title of the real estate property is only transferred to the customer if the consideration had been fully paid. In case of default, after enforcement activities, the Company has the right to cancel the sale and enter into another contract to sell to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed. Given this, based on the experience of the Company, the maximum exposure to credit risk at the reporting date is nil considering that fair value less cost to repossess of the real estate projects is higher than the exposure at default. The Company evaluates the concentration of risk with respect to trade receivables and unbilled revenue from sale of real estate as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The changes in the gross carrying amount of receivables and unbilled revenue from sale of real estate during the year did not materially affect the allowance for ECLs.

As at December 31, 2018 and 2017, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2018 and 2017, the credit quality of the Company's financial assets is as follows:

	2018			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	**₱38,637,321**	**₱–**	**₱–**	**₱38,637,321**
Receivables**	**134,801**	**9,271,008**	**5,553,669**	**14,959,478**
Cash in escrow (included under "Prepaid expenses and other current assets")	**157,719**	**–**	**–**	**157,719**
Time deposits (included under "Other noncurrent assets")	**2,392,622**	**–**	**–**	**2,392,622**
Financial assets at FVTPL				
Derivative assets	**852,933**	**–**	**–**	**852,933**
Financial assets at FVOCI				
Equity instruments	**23,508,022**	**24,231**	**–**	**23,532,253**
	₱65,683,418	**₱9,295,239**	**₱5,553,669**	**₱80,532,326**

* *Excluding cash on hand amounting to ₱129 million*
** *Excluding nonfinancial assets amounting to ₱20,270 million*

	2017			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	₱44,285,071	₱–	₱–	₱44,285,071
Receivables**	300,363	26,001,944	7,685,839	33,988,146
Cash in escrow (included under "Prepaid expenses and other current assets")	50,881	–	–	50,881
Real estate receivable - noncurrent (included under "Other noncurrent assets")	15,854,070	–	–	15,854,070
Time deposits (included under "Other noncurrent assets")	3,800,809	–	–	3,800,809
Financial assets at FVTPL				
Investments held for trading - Bonds and shares	731,076	–	–	731,076
Derivative assets	3,546,694	–	–	3,546,694
Financial assets at FVOCI				
Equity instruments	31,090,564	15,581	–	31,106,145
	₱99,659,528	₱26,017,525	₱7,685,839	₱133,362,892

* *Excluding cash on hand amounting to ₱86 million*
** *Excluding nonfinancial assets amounting to ₱2 million*

Equity Price Risk

Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors its equity price risk pertaining to its investments in quoted equity securities which are classified as equity instruments designated at FVOCI in the consolidated balance sheets based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of equity instruments at FVOCI as at December 31, 2018 and 2017) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2018	
	Change in Equity Price	**Effect on Equity**
		(In Millions)
Equity instruments at FVOCI	**+1.78%**	**₱103**
	-1.78%	**(103)**

	2017	
	Change in Equity Price	Effect on Equity
		(In Millions)
Equity instruments at FVOCI	+2.94%	₱242
	-2.94%	(242)

Capital Management

Capital includes equity attributable to the owners of the Parent.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using the following gearing ratios as at December 31:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2018	2017
	(In Thousands)	
Loans payable	**₱39,400**	₱744,400
Current portion of long-term debt	**25,089,624**	25,344,035
Long-term debt - net of current portion	**197,682,262**	167,509,484
Total interest-bearing debt (a)	**222,811,286**	193,597,919
Total equity attributable to equity holders of the parent	**275,302,994**	258,957,221
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱498,114,280**	₱452,555,140
Gearing ratio (a/b)	**45%**	43%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2018	2017
	(In Thousands)	
Loans payable	**₱39,400**	₱744,400
Current portion of long-term debt	**25,089,624**	25,344,035
Long-term debt - net of current portion	**197,682,262**	167,509,484
Less cash and cash equivalents and financial assets at FVTPL	**(38,766,467)**	(45,102,610)
Total net interest-bearing debt (a)	**184,044,819**	148,495,309
Total equity attributable to equity holders of the parent	**275,302,994**	258,957,221
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱459,347,813**	₱407,452,530
Gearing ratio (a/b)	**40%**	36%

29. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values, as at December 31:

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVTPL:				
Derivative assets	**₱852,933**	**₱852,933**	₱3,546,694	₱3,546,694
Financial assets at amortized cost:				
Time deposits (included under "Other noncurrent assets")	**2,392,622**	**2,339,327**	3,800,809	3,699,811
Financial assets at FVOCI:				
Equity instruments	**23,532,253**	**23,532,253**	31,106,145	31,106,145
Debt instruments	–	–	731,076	731,076
	26,777,808	**26,724,513**	39,184,724	39,083,726
Noncurrent portion of receivable from sale of real estate*	–	–	15,854,070	14,478,480
	₱26,777,808	**₱26,724,513**	₱55,038,794	₱53,562,206
Financial Liabilities				
Financial liabilities at FVTPL -				
Derivative liabilities	**₱335,008**	**₱335,008**	₱777,408	₱777,408
Loans and borrowings:				
Liability for purchased land - net of current portion	**₱6,044,220**	**₱6,011,668**	₱2,170,998	₱2,107,453
Long-term debt - net of current portion	**197,682,262**	**182,162,127**	167,509,484	166,129,172
Tenants' deposits - net of current portion	**18,177,479**	**17,770,876**	16,039,216	15,569,760
Other noncurrent liabilities**	**7,078,916**	**6,978,719**	5,126,222	4,912,244
	₱229,317,885	**₱213,258,398**	₱191,623,328	₱189,496,037

**Accounted for as unbilled revenue from sale of real estate beginning January 1, 2018 upon adoption of PFRS 15*

***Excluding nonfinancial liabilities amounting to ₱3,433 million and ₱2,498 million as at December 31, 2018 and 2017, respectively.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial Assets at FVTPL. The fair values are based on the quoted market prices of the instruments.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 4.72% as at December 31, 2017.

Equity Instruments at FVOCI. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.82% to 8.45% and from 3.14% to 6.86% as at December 31, 2018 and 2017, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 6.98% to 9.01% and 3.38% to 6.37% as at December 31, 2018 and 2017, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 7.80% to 7.85% and 4.47% to 4.97% as at December 31, 2018 and 2017, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2018		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVTPL -			
Derivative assets	**₱–**	**₱852,933**	**₱–**
Financial assets at amortized cost -			
Time deposits (included under "Other noncurrent assets")	**–**	**2,339,327**	**–**
Financial assets at FVOCI -			
Equity instruments	**23,532,253**	**–**	**–**
	₱23,532,253	**₱3,192,260**	**₱–**
Financial Liabilities			
Financial liabilities at FVTPL -			
Derivative liabilities	**₱–**	**₱335,008**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**₱–**	**₱–**	**₱6,011,668**
Long-term debt - net of current portion	**–**	**–**	**182,162,127**
Tenants' deposits	**–**	**–**	**17,770,876**
Other noncurrent liabilities*	**–**	**–**	**6,978,719**
	₱–	**₱335,008**	**₱212,923,390**

**Excluding nonfinancial liabilities amounting to ₱3,433 million as at December 31, 2018.*

	2017		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVTPL:			
Derivative assets	₱–	₱3,546,694	₱–
Debt instruments	731,076	–	–
Financial assets at amortized cost:			
Noncurrent portion of receivable from sale of real estate sale*	–	–	14,478,480
Time deposits (included under "Other noncurrent assets")	–	3,699,811	–
Financial assets at FVOCI:			
Equity instruments	31,106,145	–	15,581
	₱31,837,221	₱7,246,505	₱14,494,061
Financial Liabilities			
Financial liabilities at FVTPL -			
Derivative liabilities	₱–	₱777,408	₱–
Other financial liabilities:			
Liability for purchased land - net of current portion	₱–	₱–	₱2,107,453
Long-term debt - net of current portion	–	–	166,129,172
Tenants' deposits	–	–	15,569,760
Other noncurrent liabilities*	–	–	4,912,244
	–	–	188,718,629
	₱–	₱777,408	₱188,718,629

**Excluding nonfinancial liabilities amounting to ₱2,495 million as at December 31, 2017.*

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In June and July 2018, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on July 30, 2018.

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents (₱3,199 million for US$60 million and ₱2,667 million for US$50 million on June 14, 2023) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US$ notional amount, on a quarterly to semi-annual basis, simultaneous with the interest payments on the hedged loans.

Fair value of the outstanding cross-currency swaps amounted to ₱25 million.

In 2017, SM Land (China) Limited entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on May 8, 2017 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed China renminbi equivalents (¥672 million for US$100 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the China renminbi notional amount and receives floating interest on the US$ notional amount, on a quarterly basis, simultaneous with the interest payments on the hedged loans at an interest rates ranging from 4.95% to 5.43%.

The outstanding cross-currency swaps has a negative fair value of ₱111 million.

In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents (₱8,134 million for US$200 million on January 29, 2018 and ₱6,165 million for US$150 million on March 23, 2018) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

No gain or loss was recognized in consolidated statements of income upon maturity in January and March 2018 since these swaps are designated as cash flow hedges.

Principal only Swaps. In 2016 and 2017, SM Land (China) Limited entered into principal only swap transactions to hedge the foreign currency exposures amounting to $420 million of five-year term syndicated loans and advances obtained on January 11, 2016 to March 22, 2016 and January 11-17, 2017 (see Note 19). Under the principal only swap, it effectively converted the hedged US dollar-denominated loans and advances into China renminbi-denominated loans.

As at December 31, 2018, SM Land (China) Limited's outstanding principal only swaps have notional amounts totaling US$270 million which were fixed to US$:¥ exchange rates ranging from 6.458 to 6.889 and will mature on January 29, 2021. The outstanding principal swaps has a negative fair value of ₱224 million.

Interest Rate Swaps. In 2017 and 2016, SM Land (China) Limited entered into US$ interest rate swap agreement with notional amount of US$150 million and US$270 million, respectively. Under the agreement, SM Land (China) Limited effectively converts the floating rate U.S. dollar-denominated loan into fixed rate loan (see Note 19). Fair value of the outstanding interest rate swaps amounted to ₱434 million.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2018.

Below is the maturity profile of derivative financial instruments accounted for as cash flow hedges as at December 31, 2018:

Hedge Instruments*	Within 1 year	2 to 3 years	4 to 5 years	Total
		(*amounts in thousands*)		
Cross currency swaps	$–	$–	$210,000	$210,000
Principal only swaps	–	270,000	–	270,000
Interest rate swaps	150,000	270,000	–	420,000
	$150,000	$540,000	$210,000	$900,000

**Notional amounts of hedge instruments are US dollar-denominated.*

Assessment of Hedge Effectiveness

There is an economic relationship between the hedged items and the hedging instruments as the terms of the cross-currency swaps, principal only swaps and interest rate swaps match the terms of the hedged items (i.e., notional amount and expected payment date). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the cross-currency swaps, principal only swaps and interest rate swaps are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments and the counterparties' credit risk differently impacting the fair value movements of the hedging instruments.

Hedge Effectiveness Results
Hedge effectiveness is assessed at inception of the hedge, at each quarterly or semi-annual reporting date and upon a significant change in the circumstances affecting the hedge effectiveness requirements. As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to ₱124 million gain and ₱2,769 million gain as at December 31, 2018 and 2017, respectively, was taken to equity under other comprehensive income. For the years ended December 31, 2018 and 2017, no ineffectiveness was recognized in the consolidated statement of income. Foreign currency translation gain arising from the hedged loan amounting to ₱2,247 million in 2018 and ₱1,082 million in 2017 was recognized under other comprehensive income. Foreign currency translation loss arising from the hedged loan amounting to ₱2,119 million in 2016 was recognized under other comprehensive income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges

Non-deliverable Currency Forwards and Swaps. In 2018 and 2017, SMPH entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱110 million gain, ₱27 million gain and ₱25 million gain in 2018, 2017 and 2016, respectively.

In 2018, SM Land (China) Limited entered into forward swap transactions to cap the foreign currency exposures on its U.S. dollar-denominated three-year term syndicated loans (the hedged loans) obtained on March 14, 2018 to May 25, 2018 (see Note 19).

As at December 31, 2018, SM Land (China) Limited's outstanding forward swaps consist of US$100 million with low strike 6.3135 and high strike 6.4850, US$100 million with low strike 6.2885 and high strike 6.4955 and US$100 million with low strike 6.3828 and high strike 6.5473, all maturing at April 15, 2019. Fair value changes from the forward swaps recognized in the consolidated statements of income amounted to ₱410 million gain.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱2,769,286**	₱5,102,735
Net changes in fair value during the year	**(2,199,029)**	(2,315,403)
Fair value of settled derivatives	**(52,332)**	(18,046)
Balance at end of year	**₱517,925**	₱2,769,286

In 2018, the net changes in fair value amounting to ₱2,199 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱58 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱2,645 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱504 million, which is included under "Others - net" account in the consolidated statements of income.

In 2017, the net changes in fair value amounting to ₱2,315 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱9 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱2,333 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱27 million, which is included under "Others - net" account in the consolidated statements of income.

30. EPS Computation

Basic/diluted EPS is computed as follows:

	2018	2017	2016
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱32,172,886**	₱27,573,866	₱23,805,713
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	**4,311,949**	4,332,630	4,332,692
Weighted average number of common shares outstanding (b)	**28,854,351**	28,833,670	28,833,608
Earnings per share (a/b)	**₱1.115**	₱0.956	₱0.826

31. Change in Liabilities Arising from Financing Activities

Movements in loans payable and long-term debt accounts are as follows (see Note 17):

	2018		2017	
	Loans Payable	**Long-term Debt**	Loans Payable	Long-term Debt
	(In Thousands)			
Balance at beginning of year	**₱744,400**	**₱192,853,519**	₱840,000	₱163,537,685
Availments	**–**	**54,115,835**	4,639,400	37,358,271
Payments	**(475,000)**	**(26,737,233)**	(4,735,000)	(9,811,140)
Cumulative translation adjustment	**–**	**(188,713)**	–	2,675,627
Foreign exchange movement	**–**	**2,677,665**	–	(991,740)
Loan refinancing	**(230,000)**	**230,000**	–	–
Others	**–**	**(179,187)**	–	84,816
Balance at end of year	**₱39,400**	**₱222,771,886**	₱744,400	₱192,853,519

There are no non-cash changes in accrued interest and dividends payable. Others include debt issue cost additions and amortization.

32. **Other Matters**

Bases Conversion and Development Authority (BCDA) Case
In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA. On August 13, 2014, the Supreme Court granted the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others ("Decision"). BCDA filed several Motions for Reconsideration of the Decision, which motions were all denied by the Supreme Court. The Supreme Court subsequently ordered the issuance of an Entry of Judgment, and the Decision became final and executory.

On 23 February 2018, BCDA conducted the opening, examination and ranking of proposals for the Competitive Challenge in accordance with the 2008 NEDA Guidelines. On 21 March 2018, the Company exercised its right to match a bid submitted by a challenger. After the conduct of post-qualification, BCDA declared the Company's offer as the best and most advantageous proposal and issued a Notice of Award in favor of the Company. BCDA and the Company are working in accordance with applicable laws.