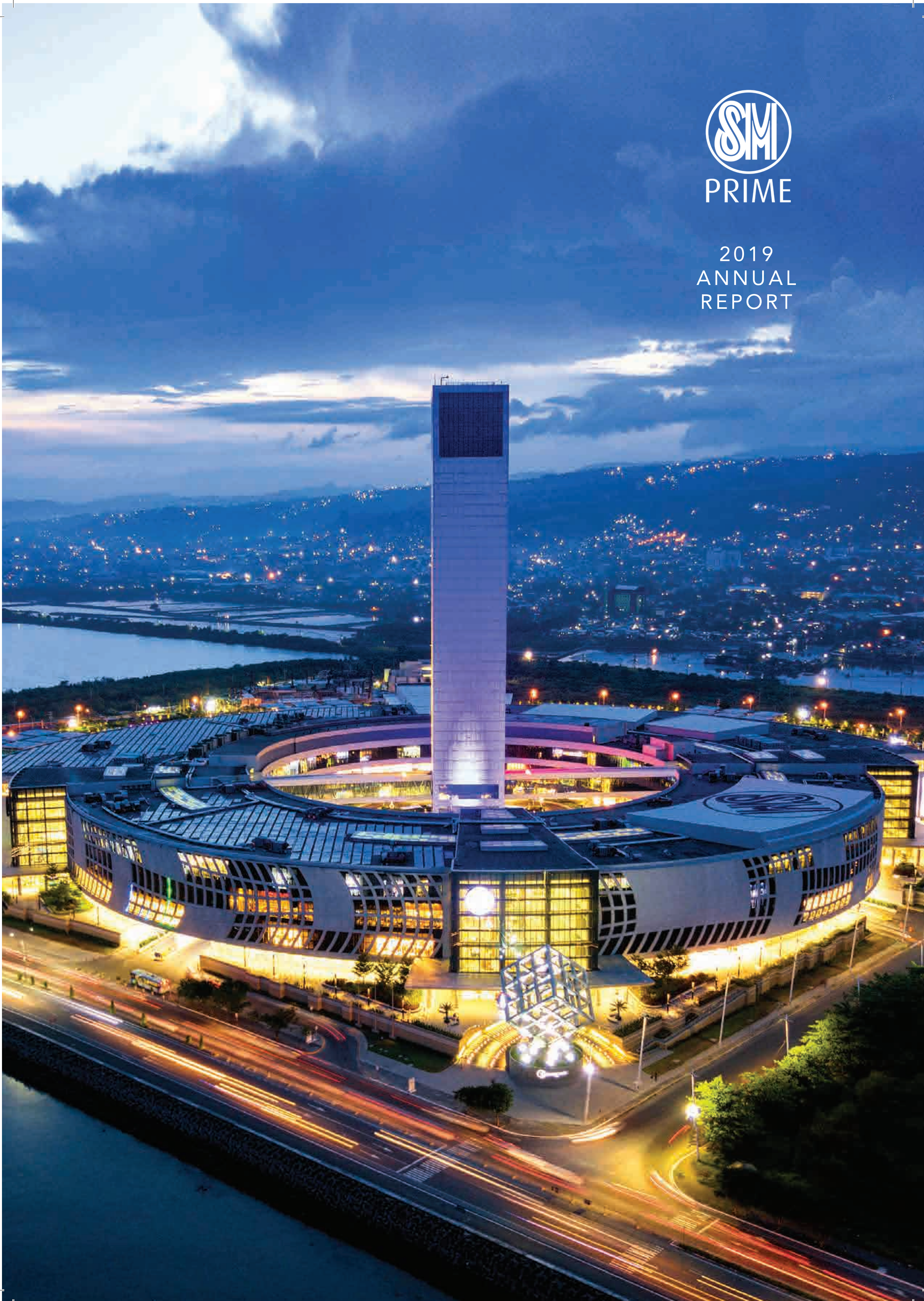


PRIME

2019
ANNUAL
REPORT

VISION

To build and manage innovative integrated property developments that are catalysts for a better quality of life.

MISSION

We will serve the ever-changing needs and aspirations of our customers, provide opportunities for the professional growth of our employees, foster social responsibility in the communities we serve, enhance shareholder value for our investors and ensure that everything we do safeguards a healthy environment for future generations.

CONTENTS

About SM Prime Holdings, Inc.

SM Prime Holdings, Inc. (SM Prime) is one of the largest integrated property developers in Southeast Asia that offers innovative and sustainable Lifestyle Cities with the development of malls, residences, offices, hotels, and convention centers. It is also the largest, in terms of assets, in the Philippines.

SM Prime was incorporated in the Philippines in 1994. It started as a mall developer and operator. It grew to be the biggest retail shopping center developer and operator in the Philippines. Currently, it has 74 malls in and outside Metro Manila and seven shopping malls in China, totaling 9.8 million square meters of Gross Floor Area (GFA). In the Philippines, it has a total of 19,513 tenants and 2,001 tenants in China.

SM Prime goes beyond mall development and management through its units and subsidiaries. SM Development Corporation (SMDC) is the residential business component that sells affordable condominium units. SM Prime's commercial business units, the Commercial Property Group (CPG), is engaged in the development and leasing of office buildings in Metro Manila. Its Hotels and Convention Centers business unit develops and manages various hotel and convention centers across the country.

Group Performance

KEY HIGHLIGHTS
(Amounts in Philippine Peso)

1,215.82bn
Market Capitalization

667.28bn
Total Assets

410.64bn
Total Investment Properties

118.31bn
Total Revenue

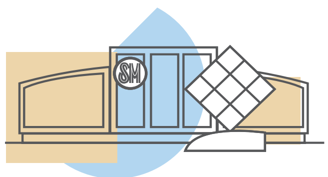
31.90
Price/Earnings Ratio

42.10
Share Price

13%
Total Shareholder Returns

1.32
Earnings per Share

Malls



74
Malls in the Philippines

7
Malls in China

9.8 million
sqm total Gross Floor Area

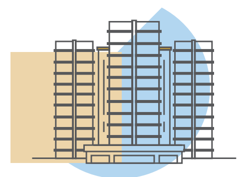
402
Cinema Screens

63.63 billion
Total Revenue

34.95 billion
Operating Income

388.65 billion
Total Assets

Residences



70
Residential Projects

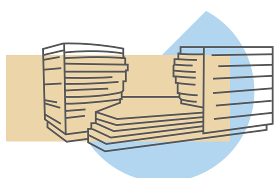
140,066
Residential Units (since 2003)

45.21 billion
Total Revenue

17.14 billion
Operating Income

217.79 billion
Total Assets

Offices



12
Office Buildings

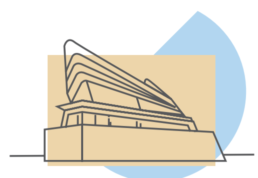
695,263
sqm total Gross Floor Area

4.58 billion
Total Revenue

3.76 billion
Operating Income

51.34 billion
Total Assets

Hotels & Convention Centers



8
Hotels

1,961
Hotel Rooms

4
Convention Centers

3
Trade Halls

5.06 billion
Total Revenue

1.11 billion
Operating Income

13.57 billion
Total Assets

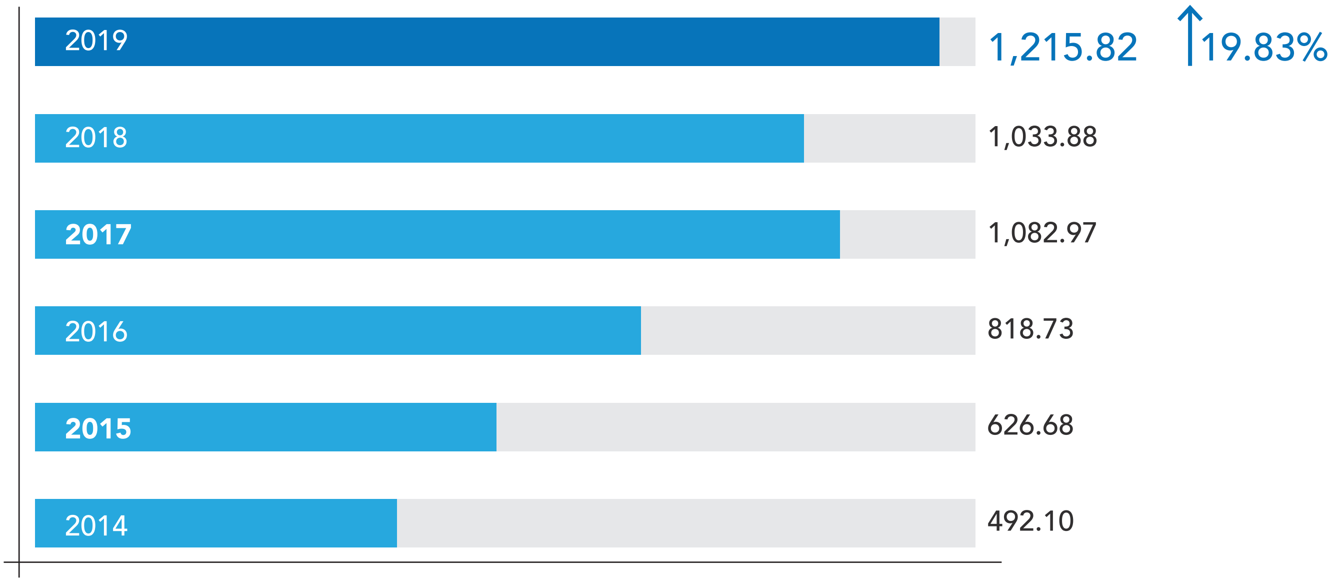
Financial Highlights

	2019	2018	2017
Balance Sheet Hightlights (in PHP billions)			
Total Assets	667.28	604.13	538.42
Investment Properties	410.64	343.42	309.23
Total Debt	237.95	222.81	193.60
Net Debt	203.35	184.04	148.50
Total Stockholders' Equity	300.92	275.30	258.96
Income Statement Highlights (in PHP billions)			
Revenues	118.31	104.08	90.92
Cost and Expenses	61.62	55.75	50.29
Operating Income	56.69	48.33	40.63
Net Income attribute to Equity holders of the Parent	38.09	32.17	27.57
EBITDA	66.81	57.24	49.04
Financial Ratios			
Debt to Equity	44:56	45:55	43:57
Net Debt to Equity	40:60	40:60	36:64
Return on Equity	13%	12%	11%
Debt to EBITDA	3.56	3.89	3.95
EBITDA to Interest Expense	7.56	7.59	8.96
Operating Income to Revenues	0.48	0.46	0.45
EBITDA Margin	0.56	0.55	0.54
Net Income to Revenues	0.32	0.31	0.30
Revenue Profile			
Malls	54%	57%	58%
Residences	38%	35%	33%
Offices	4%	3%	3%
Hotels and Conventions	4%	5%	5%
Asset Profile			
Malls	58%	60%	66%
Residences	32%	31%	25%
Offices	8%	7%	7%
Hotels and Conventions	2%	2%	2%
Market Capitalization	**1,215.82**	**1,033.88**	**1,082.97**
Dividends Paid[1]	**10.51**	**10.30**	**7.71**

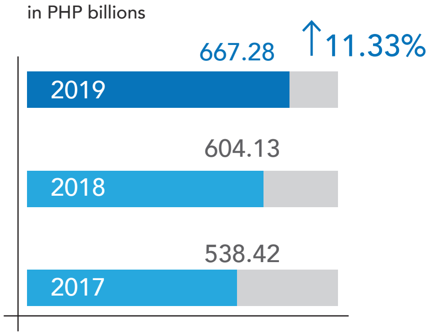
[1]2018 dividends include special cash dividend of PHP1.44 billion

Performance Overview

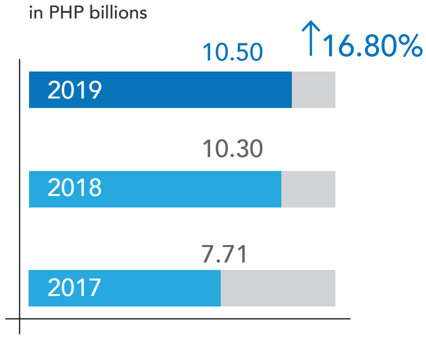
Market Capitalization
in PHP billions



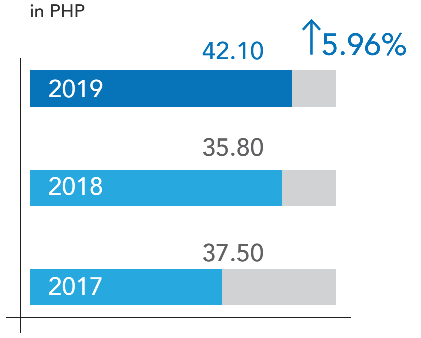
Asset Growth
in PHP billions



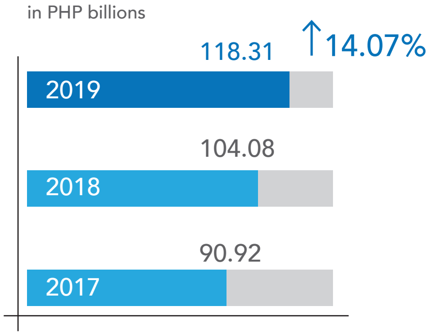
Dividends
in PHP billions



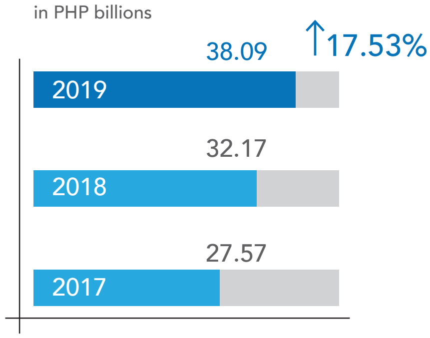
Market Price
in PHP



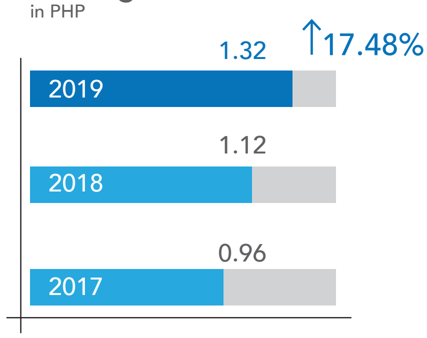
Revenue Growth
in PHP billions



Net Income Growth
in PHP billions



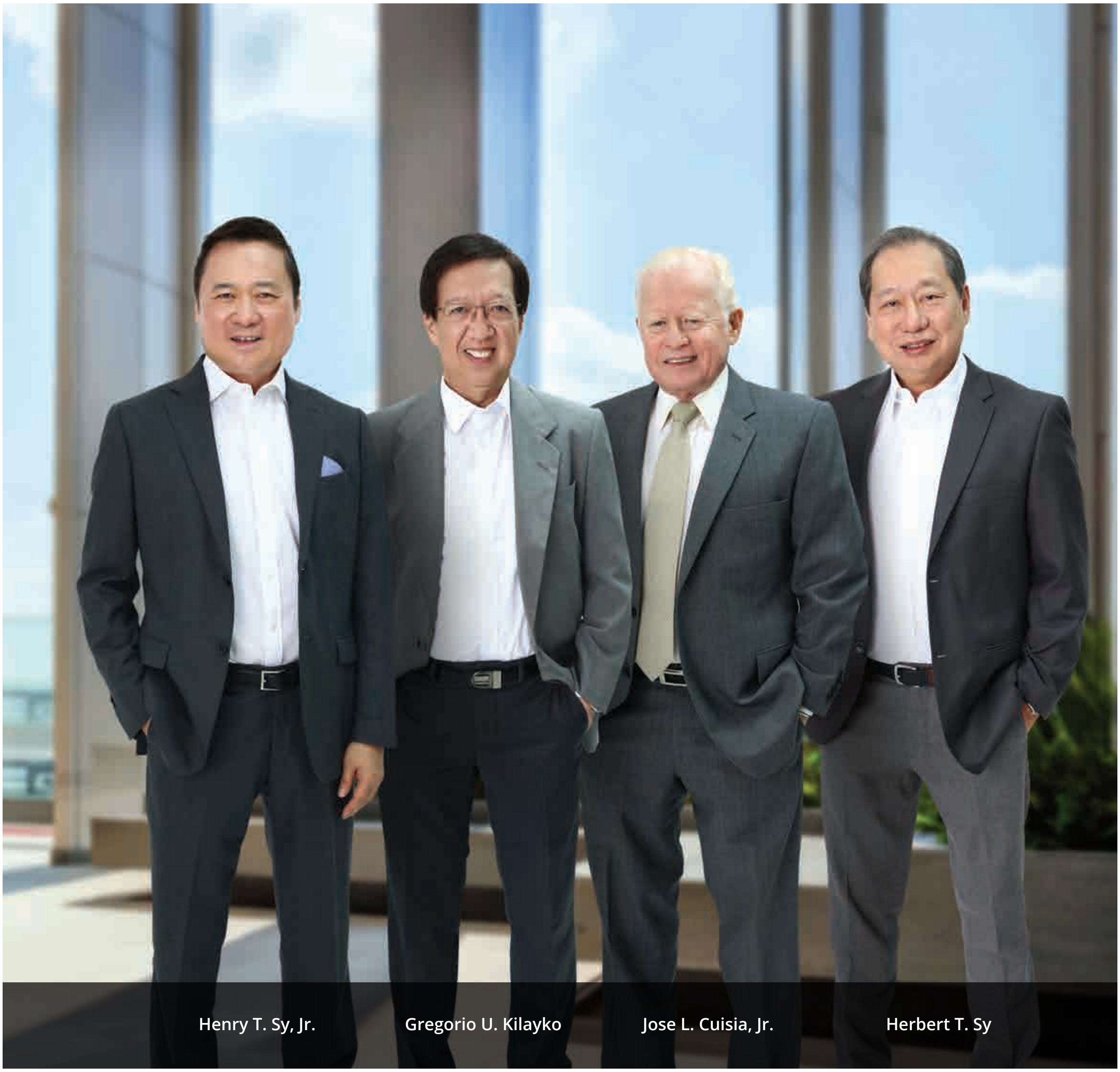
Earnings Per Share
in PHP



Note: All percentages in this page represent Common Annual Growth Rate (CAGR)

Board of Directors

Joselito H. Sibayan Jorge T. Mendiola Hans T. Sy Jeffrey C. Lim


Henry T. Sy, Jr.
Gregorio U. Kilayko
Jose L. Cuisia, Jr.
Herbert T. Sy

MR. HENRY T. SY, JR.
Chairman
Henry T. Sy, Jr. has been a director of SM Prime since 1994. He was appointed as Chairman of the Board in 2014. He is responsible for the real estate acquisitions and development activities of the SM Group, which include the identification, evaluation, and negotiation for potential sites, as well as the input of design ideas. He is currently the Vice-Chairman of SM Investments Corporation (SMIC), Chairman and Chief Executive Officer of SM Development Corporation, Chairman of Pico de Loro Beach and Country Club Inc., and Vice-Chairman of The National Grid Corporation of the Philippines. He holds a Bachelor's Degree in Management from De La Salle University.

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

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

MR. GREGORIO U. KILAYKO
Independent Director
Mr. Gregorio U. Kilayko has been an Independent Director of SM Prime since 2008. He is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stock brokerage and investment banking business in the Philippines and served as a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the Philippine Stock Exchange in 2003. He is also currently an Independent Director in Belle Corporation, Philequity Fund and EastWest Banking Corporation. He took his Master's degree in Business Administration at the Wharton School of the University of Pennsylvania.

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

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

MR. JORGE T. MENDIOLA
Non-Executive Director
Mr. Jorge T. Mendiola has been a director of SM Prime since 2012. He is also currently a Director of SM Retail, Inc. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989. He rose to become its President in 2011. He is also currently the Vice-Chairman for the Advocacy of the Philippine Retailers Association. He received his Master's degree in Business Management from the Asian Institute of Management. He holds an A.B. Economics degree from Ateneo de Manila University.

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

Corporate Executives

HENRY SY, SR. (†)
Chairman Emeritus

HENRY T. SY, JR.
Chairman

JEFFREY C. LIM
President

JOHN NAI PENG C. ONG
Chief Finance Officer and Compliance Officer

CHRISTOPHER S. BAUTISTA
Chief Audit Executive

MARVIN PERRIN L. PE
Chief Risk Officer

STEVEN T. TAN
Head, Malls

JOSE MARI H. BANZON
Head, Residential (Primary)

SHIRLEY C. ONG
Head, Residential (Leisure)

RUSSEL T. SY
Head, Commercial Properties

MA. LUISA E. ANGELES
Head, Hotels and Convention Centers

ELMER B. SERRANO
Corporate Secretary

ARTHUR A. SY
Assistant Corporate Secretary

MESSAGE FROM THE CHAIRMAN OF THE BOARD

To Our Valued Shareholders,

Over the years, SM Prime has been delivering quality property developments across the Philippines and China, contributing significantly to the socio-economic development of the communities where our businesses operate. As we commemorate the Company's 25th Anniversary, let us recount the milestones that have made us one of the leading integrated property developers in the Philippines and Southeast Asia.

Our Business Transformation

During the early years of SM Prime, the SM Supermalls became the leading and preferred retail destination of millions of Filipino families. Our malls have been go-to places for shopping, dining, entertainment, wellness, and other services. To serve the changing lifestyle needs of our customers beyond the shopping experience, we made a bold move to consolidate all property developments under SM Prime, including residential, commercial, and hotels and convention centers, in 2013.

Taking off from the success of integrated developments at the Mall of Asia Complex in Pasay City, your Company has started replicating this model in other cities, transforming barren and unproductive land spaces into

Your Company has committed to provide aspirational lifestyle experiences to more Filipino families, and will unceasingly uphold this commitment. We will continue to deliver innovative and sustainable products and services which will meet the needs and expectations of our customers, aside from providing platforms for the expansion of local businesses and creating job opportunities in the communities we serve.

vibrant, live-learn-work-play complexes, dubbed as Sustainable Lifestyle Cities.

Your Company has committed to provide aspirational lifestyle experiences to more Filipino families, and will unceasingly uphold this commitment. We will continue to deliver innovative and sustainable products and services, which will meet the needs and expectations of our customers, aside from providing platforms for the expansion of local businesses and creating job opportunities in the communities we serve.

Sustainable and Responsible Business

With the continuous expansion of our footprint in the Philippines, we remain conscious of our commitments to protect and preserve the environment, contribute to social progress, and abide by fair and equitable corporate practices.

We adhere to international standards on environmental, social, and governance (ESG) efforts such as the United Nations (UN) Sustainable Development Goals (SDGs); the UN Sendai Framework for Disaster Risk Reduction (DRR); the UN Global Compact 10 Principals; the Leadership in Energy and Environmental Design (LEED) green building standards; and The World Wildlife Fund (WWF).

We have also adopted the Global Reporting Initiative (GRI) Standards in communicating Environmental, Social, and Governance (ESG) efforts to our stakeholders and thereby promote transparency.

A Legacy to Pursue

With these efforts, your Company has consistently received awards and accolades.

In 2019, SM Prime was awarded the Four Golden Arrows at the 1st ASEAN Corporate Governance Scorecard (ACGS) Recognition Ceremony by the Institute of Corporate Directors. The ACGS Golden Arrow Recognition is given to publicly listed companies that performed remarkably in terms of corporate governance practices.

The World HRD Congress and Employer Branding Institute also named SM Prime, one of the Best Companies to Work For, and one of Asia's Best Employer Brands for Transformational People Strategies. Moreover, we have also received the UN SDGs Special Recognition Award for our endeavors in involving stakeholders through our global goal-oriented initiatives.

These accolades and awards are both a testament and an inspiration in the pursuit of excellent business performance as we continue to work as a team.

We wish to thank you, our dear stakeholders, for the unwavering trust and confidence you have given to SM Prime. We commend our customers for your continued loyalty and our business partners for motivating us to deliver better results year-on-year. We salute our employees and management team for your commitment to the legacy of the entire SM Group. We are grateful to our devoted Board of Directors for your hard work and support.

As we enter a new era, may we continue to work together passionately and serve our country, our communities, and our families in the best possible ways. I wish everyone in SM Prime a Happy 25th Anniversary!

Thank you.

Henry T. Sy, Jr.
Chairman

PRESIDENT'S REPORT

We celebrated the 25th anniversary of SM Prime Holdings, Inc. (SM Prime) in 2019. This also marked the 25th year of my service in the Company when it started as a mall developer and has grown into one of the leading integrated property developers in the Philippines and in Southeast Asia. The success of your Company is a reflection of support from stakeholders and their trust in our employees, management and Board of Directors.

Collaborative Performance

The synergy among businesses, most notably in our integrated complex developments, has delivered a solid financial performance to the Company. We bank on this strength as we continue to embark on redeveloping existing properties into mixed-use developments and as we pursue strategic expansion in key provincial cities to broaden our reach of markets and communities.

Our collective efforts in 2019 delivered consolidated revenues of PHP118.3 billion, a 14% increase from 2018. The Company's overall net income registered an 18% growth to PHP38.1 billion, while consolidated operating profit grew to PHP56.7 billion, a 17% increase from the previous year.

Your Company recorded another remarkable result since we integrated SM Group's key property units under SM Prime

The synergy among businesses, most notably in our integrated complex developments, has delivered a solid financial performance to the Company. We bank on this strength as we continue to embark on redeveloping existing properties into mixed-use developments and as we pursue strategic expansion in key provincial cities to broaden our reach of markets and communities.

when we closed 2019 with PHP667.2 billion in assets. This year, the mall business segment accounted for 54% of the Company's consolidated revenues.

Growing Presence

We continue to strengthen the malls business by increasing our presence in Central Luzon with the recent opening of two new malls in the region – SM City Olongapo Central and SM Center Dagupan.

These mall openings and continuous expansion of existing malls resulted in revenues of PHP63.6 billion this year, a 7% increase from last year. SM Prime celebrated 2019 with 81 malls, 74 of which are in the Philippines, and seven in China. The residential business segment continues to grow, accounting for 38% of consolidated revenues. In 2019, SM Prime's primary residential business, SM Development Corporation (SMDC), expanded its footprint in Visayas and Mindanao regions as it officially launched Lane Residences in Davao City and Style Residences in Iloilo City.

With these two new projects and the expansion of existing residential projects, SMDC's reservation sales of PHP90.0 billion exceeded last year's PHP72.3 billion by 24%.

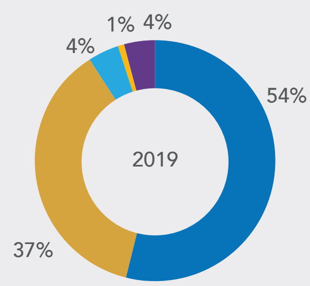
On other businesses, the combined performances of SM Prime's offices and hotels and convention centers business segments contributed 8% to the Company's consolidated revenue, recording a 14% revenue growth to PHP9.6 billion in 2019.

The Company opened the ThreeE-Com Center, NU Mall of Asia, and Park Inn by Radisson Hotels in Iloilo and North EDSA in 2019. These business segments generated a 23% increase in its combined operating income to PHP4.9 billion.

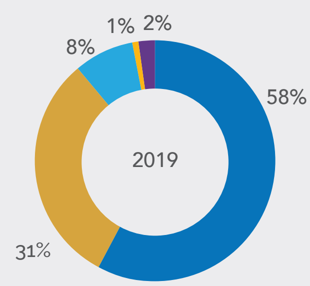
Currently, your Company has 12 offices with a combined GFA of 695,000 sqm., eight hotels with more than 1,900 rooms, four convention centers, and three trade halls strategically located in Metro Manila and in provinces.

2019 Performance

Revenues



Net Income

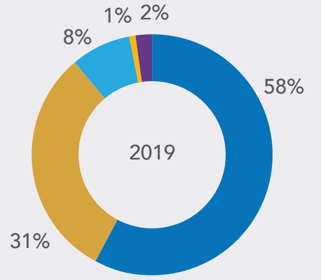


Malls
Residences
Commercial
Leisure & Resorts
Hotels & Convention Centers

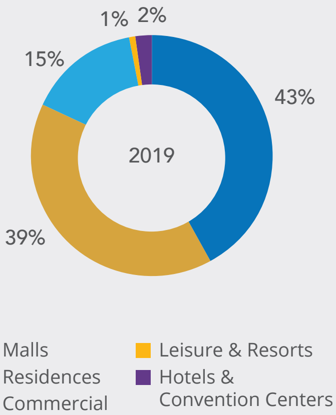
NU Mall of Asia (NUMA) Building

2019 Performance

Assets



CAPEX



Stronger Together

The past 25 years have taught us many valuable lessons that brought about key milestone performances that we are truly grateful for. But now is not the time to be complacent. Instead, we must keep grounded and prudent on the decisions we make, especially as we encounter greater challenges in the years ahead. In facing the future, we bring with us a strong brand equity and proven business strategies that weathered past crises. It occurs upon us to sustain being one of the leading integrated real estate developers with an excellent track record across the full suite of asset classes.

As in the past 25 years, SM Prime will continuously evolve to deliver quality products and services to diverse customer groups, while maintaining operational excellence, good governance, and loyalty of our customer base. With our goal of developing more Lifestyle Cities, large-scale strategic landbanking becomes a precursor to the development of more sustainable Lifestyle Cities.

To continue this growth trajectory, we are committed to employ the proven strategies of leveraging on building world-class malls to anchor our Lifestyle City developments that promote sustainable living; ensuring excellence in delivering residential projects that are attuned to the needs and aspirations of the market; continuing to rollout development of offices, hotels, and convention centers as part of integrated Lifestyle Cities.

Park Inn by Radisson North EDSA

But now is not the time to be complacent. Instead, we must keep grounded and prudent on the decisions we make, especially as we encounter greater challenges in the years ahead.

With prudent risk and capital management, as well as good corporate governance, we are confident that we will be able to maintain a strong balance sheet. SM Prime will remain committed to deliver integrated property developments that serve as catalysts for nation building and provide shareholder value and better quality of life to many people.

Grateful for the Trust

The stellar performance of 2019 is much commendable to say the least. And so we are grateful for the trust of our advocates and loyal customers; for the dedication of our management and staff who never cease to carry the legacy of our founder, Mr. Henry Sy, Sr; for the value-driven collaborative partnership with local government units, and other business partners; for the guidance and support of your Board of Directors, whose dedication have been valuable to us all. Happy Silver Anniversary to all of us.

Maraming Salamat muli.

Jeffrey C. Lim
President

ENRICHING LIVES THEN AND NOW


MALL OF ASIA

MILESTONES

SM North EDSA

SM Megamall

SM City Cebu

1985

SM's first mall, SM North EDSA, is opened at a time when the country was in a state of political and economic turbulence.

1991

The opening of SM Megamall spearheaded what is now known as the malling phenomenon in the Philippines.

1993

SM City Cebu is the 1st Provincial Mall launched in the Visayas region.

1994

SM Prime was incorporated in January as a mall operator; subsequently, went public in July of the same year.

Woodridge Place

SM Baguio

Tall Vista Hotel

2002

SM Prime won 1st Place - Best in Corporate Governance in the Asset Awards.

2002

Highlands Prime, Inc. (HPI) launched Woodridge Place, its 1st Leisure Residences in Tagaytay Highlands.

2003

SM City Baguio is the 1st mall opened in Northern Luzon.

2003

SM Hotels and Convention Centers (SMHCC) re-opened Taal Vista Hotel in Tagaytay.

SM Southmall

SM Davao

SM Xiamen

1995

SM Southmall is the 5th mall opened and is the 1st mall in the South of Metro Manila. It featured Storyland, the 1st indoor themepark.

2000

SM City Pampanga is the 10th mall opened by SM Prime and is the 1st mall in Central Luzon.

2001

SM City Davao is the 1st mall that was opened in Mindanao Region.

2001

SM City Xiamen is the 1st SM mall in China.

The Horizon

SM Mall of Asia

Mezza Residences

2004

SM Prime received Best Corporate Governance awards from the 12th Annual Best-Managed Companies Poll, Euromoney and the 2004 Asset Benchmark Survey.

2005

HPI launched The Horizon, its 1st condominium project in Tagaytay Midlands.

2006

SM Mall of Asia is the anchor development in the 60-hectare reclaimed property popularly known as Mall of Asia Complex.

2006

Mezza Residences is the 1st high-rise condominium project of SM Development Corporation (SMDC).

MILESTONES

SMX Manila

Pico de Loro Beach and Country Club

Mall of Asia Arena

2007

SMHCC launched SMX Manila, the 1st and biggest convention center in the Philippines.

2007

SM Prime acquired three malls in China, namely, SM City Xiamen, SM City Jinjiang, and, SM City Chengdu.

2008

Costa del Hamilo, Inc. (CDHI) launched Pico de Loro, a 50-hectare residential resort village in Nasugbu, Batangas.

2009

Mall of Asia Arena, an indoor arena which can accommodate a seating capacity of 15,000, with a full-house capacity of 20,000, is part of the Lifestyle City development in Mall of Asia Complex.

Park Inn by Radisson Davao

SM Seaside City Cebu

FiveE-com Center

2012

SMHCC launched Park Inn Radisson Davao in 2012. It is conveniently connected to SM Lanang Premier Mall and the SMX Convention Center in Davao.

2013

SM merged and consolidated its property assets under SM Prime, creating an integrated property developer with interests in malls, residences, offices, hotels and convention centers.

2015

SM Seaside City Cebu is the anchor development in a 30-hectare reclaimed land in the South Reclamation Project.

2015

In order to address the growing demand for office space, CPG launched the FiveE-com Center in 2015.


Wind Residences


Radisson Blu Hotel Cebu


TwoE-com Center

2009

SMDC launched Wind Residences, its 1st condominium project in Tagaytay.

2010

SMHCC opened Radisson Blu Cebu, a 5-star hotel which is a few minutes away from the Mactan Channel.

2011

Pico Sands Hotel, a seven storey, 154-room hotel, located in Pico de Loro Cove, was launched by SMHCC in 2011.

2012

The Commercial Property Group (CPG) launched the TwoE-com Center, a PEZA-certified office building in Mall of Asia Complex.


Cheer Residences


ThreeE-com Center

SM Prime 25th Anniversary

2016

Cheer Residences, the 1st condominium project in Marilao, Bulacan, was launched by SMDC in 2016.

2017

SM Prime became the 1st Philippine publicly listed company to breach the PHP1 Trillion Market Value.

2018

CPG launched ThreeE-com Center, its 1st certified LEED Gold office building in the Mall of Asia Complex.

2019

SM Prime celebrated its 25th year anniversary as a listed company. The Management commemorated its listing anniversary with a ceremonial ringing of the bell at the Philippine Stock Exchange.

SM City North EDSA - Annex Building

BRINGING THE SIGNATURE SM EXPERIENCE TO MORE PEOPLE

A household name in the retail industry, SM Supermalls, the mall development, and operations group of SM Prime, upholds its vision to bring family fun moments to more people across the country through top-notch dining, shopping, and entertainment experiences. SM Supermalls sticks to its core of serving and making millions of Filipinos happy via mall innovation, expansions, and redevelopments nationwide.

SM City Olongapo Central

SM Prime opened its newest mall in Olongapo City on September 13, 2019, SM City Olongapo Central. It is the Company's second lifestyle mall in the highly urbanized city of Olongapo in Zambales with an additional 72,000 square meter (sqm.) of gross floor area (GFA) in SM's mall portfolio.

SM City Olongapo Central sits at the heart of the city's business district along Rizal Avenue in Barangay East Tapinac. The newest go-to lifestyle hub is a four-level shopping, dining, and entertainment mall that anchors SM brands including SM Supermarket, The SM Store, Our Home, Watsons, Uniqlo, Surplus, Sport Central, SM Appliance Center, Ace Hardware, Banco de Oro, China Bank, and Miniso. Offering a full malling experience to shoppers, SM City Olongapo Central has become a convergence point of neighboring towns and provinces with its wide range of products, services, and modern amenities including Food Court, Cyberzone, Wellness Zone, six digital cinemas, a convention center, more than 700 carpark slots, and a sports entertainment venue.

SM City Olongapo Central

Aside from providing more options for leisure and entertainment in Olongapo City, SM City Olongapo Central takes pride in providing more jobs for the locals and opportunities for thriving start-up businesses.

SM Center Dagupan

On October 4, 2019, SM officially opened SM Center Dagupan, the company's third lifestyle mall in the Province of Pangasinan. Situated at the bustling M.H. Del Pilar Street, SM Center Dagupan is located close to major educational, medical, and government institutions in the city.

With the success of its first two SM malls in Pangasinan, namely SM City Rosales and SM City Urdaneta Central, SM Prime established SM Center Dagupan as the company's 74th lifestyle mall, which spans 23,000 sqm. of GFA. It features well-loved shopping, dining, and entertainment anchor brands including SM Hypermarket, SM Appliance Center, Ace Hardware, Watsons, Surplus, Miniso, and Simply Shoes. It also has more than 322 carpark slots as well as a bus terminal to ease the shoppers' malling experience.

Further boosting the growth of Pangasinan's local economy, SM Center Dagupan adds to the long list of reasons to visit the city as it continues to gain more local and international recognition.

SM Center Dagupan

SM City North EDSA – North Towers

Home to the well-loved Art Walk showcasing creative panels and murals created by the country's sought-after young and seasoned artists, SM City North EDSA's North Towers opened on December 7, 2018. It offers mall-goers a redefined shopping experience as it brings over 60 new lifestyle concepts at its podium – providing a two-level lifestyle space that innovates and features food, beauty, and wellness, as well as entertainment experiences especially designed for family fun moments. The establishment is equipped with a four-level parking facility, a chapel with 1,200 seating capacity, and a sky garden at the 7th level between the towers. Meanwhile, the remaining levels are leased by traditional offices and BPO companies.

SM City North EDSA - North Towers

SM City Fairview Parkway Wing

SM City Fairview Parkway Wing

SM City Fairview reinvents itself as the go-to lifestyle mall in the 5th District of Quezon City with the opening of its newest expansion wing on April 27, 2019 serving more shoppers in neighboring communities like North Caloocan and a few towns in Bulacan. SM City Fairview Parkway Wing offers fresh and exciting malling experiences with its delightful choices of fashion, dining, beauty and wellness, and entertainment concepts. The new wing houses the newest covered parking area that has 942 additional parking slots, with easy access to the SM Store, SM Supermarket, and SM Hypermarket. SM City Fairview Parkway Wing also entertains shoppers with gigantic art installations, creatively giving a youthful and vibrant feel to every shopper's malling experience.

With the vision of bringing the signature SM Supermalls experience to more people, the retail brand is set to open new malls soon in the cities of Butuan, Zamboanga, Daet, Caloocan, and Roxas.

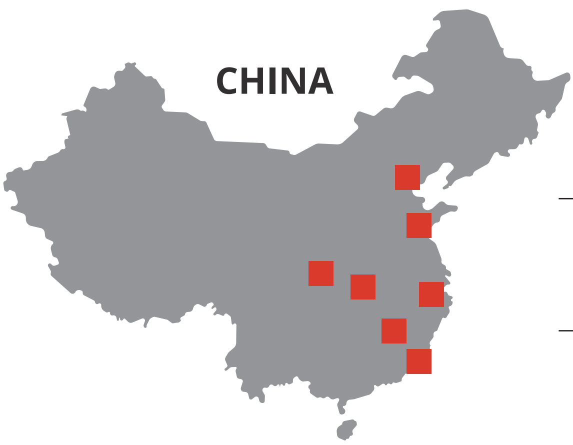
Malls
Fast Facts

PHILIPPINES

4.4 million Average Daily Pedestrian Count	**8.5 million** Total GFA
344 Cinema Screens	**19,153** No. of Malls Tenants

91,768 Parking Slots

CHINA



0.2 million Average Daily Pedestrian Count	**1.3 million** Total GFA
58 Cinema Screens	**2,001** No. of Malls Tenants

15,534 Parking Slots

SM Supermalls

Festive Fireworks Festival
Kagay-anons witnessed a spectacular burst of colors and culture during the Higalaay PyroFest 2019 at SM City Cagayan de Oro.

Independence Day: Bayani Wall
A collage of the Philippines' national heroes at SM City Cebu intended to educate mallgoers about their heroic deeds in protecting and dying for our country.

Experience Cordillera Fun
This mall-wide marketing campaign of SM City Baguio promotes the rich culture and art of the Cordillera Administrative Region.

Arctic in the South
A gigantic Arctic activation in SM Supermalls across South Luzon featured life-size interactive displays, creating an exceptional malling experience for everyone.

MOA Arena

Backstreet Boys
1990s music fans were ecstatic about the Backstreet Boys' return to Manila for their highly anticipated DNA World Tour at the SM MOA Arena on October 28. The classic boyband kept playing musical games with their audience's hearts.

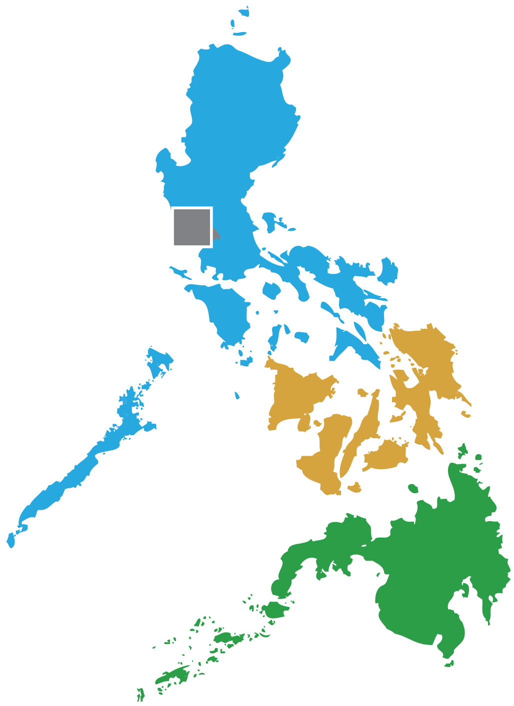
EXO
Kpop group EXO came back to the Philippines for concerts on August 23 and 24 featuring their latest album, which earned them the "Quintuple Million Seller Artist" title after selling 1.1 million copies worldwide in just ten days.

Josh Groban
Performing at the SM MOA Arena on February 22, American singer, songwriter, and record producer Josh Groban made a great impact on his Filipino audience. International singing diva Lea Salonga joined him onstage for "The Prayer."

SEA GAMES
Perhaps the most historic event at the SM MOA Arena in 2019 was the 5-on-5 basketball tournament of the 30th Southeast Asian Games when Team Philippines bagged the men's and women's gold medals – truly a proud moment.

Malls

PHILIPPINES



METRO MANILA

North EDSA
Sta. Mesa
Megamall
Southmall
Fairview
Manila
Sucat
Bicutan
San Lazaro
Valenzuela
Mall of Asia
Pasig
Muntinlupa
Marikina
Las Piñas
Novaliches
Aura Premier
BF Parañaque
Sangandaan
Cherry Shaw
Cherry Congressional
East Ortigas
S Maison
The Podium

LUZON

Bacoor
Pampanga
Lucena
Baguio
Marilao
Dasmariñas
Batangas
Molino
Sta. Rosa
Clark
Lipa
Taytay
Rosales
Baliwag
Naga
Rosario
Tarlac
San Pablo
Calamba
Masinag
Olongapo
San Fernando Downtown
Cauayan
Angono
Megacenter Cabanatuan
San Mateo
Cabanatuan
San Jose Del Monte
Trece Martires
Cherry Antipolo
Tuguegarao Downtown
Pulilan
Lemery
Imus
Urdaneta Central
Telabastagan
Legazpi
Olongapo Central
Center Dagupan
Puerto Princesa

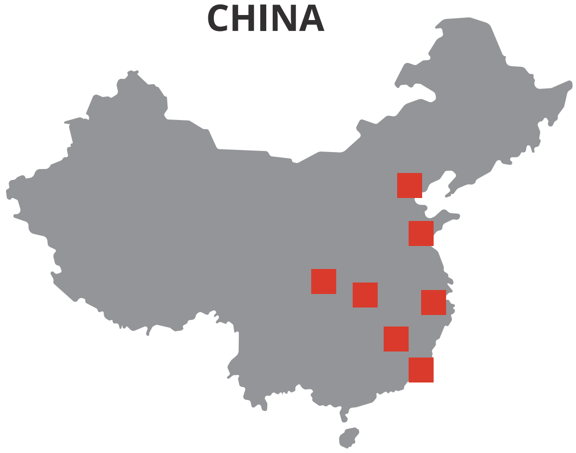
VISAYAS

Cebu
Iloilo
Bacolod
Consolacion
Seaside City Cebu
Ormoc

MINDANAO

Davao
Cagayan de Oro
General Santos
Lanang Premier
CDO Downtown Premier

CHINA



CHINA

Xiamen
Jinjiang
Chengdu
Suzhou
Chongqing
Zibo
Tianjin

ENABLING COMMUNITIES, SUSTAINING GROWTH

SM Development Corporation (SMDC) was founded to achieve a singular goal: to create homes that every Filipino would love to live in, with world-class amenities that its residents could enjoy as a community and where everything one needed would be within his reach. SMDC has been in the forefront of redefining urban living by building residential communities mindful of the impact of rapid urbanization, locking in developments in prime locations with the convenience of a retail component in the mix.

Light 2 Residences

Creating a New Breed of Filipino Urban Dwellers

SM Development Corporation (SMDC) pioneered the creation of developments that evolved with people's changing lifestyles. It stayed attuned to people's needs beyond comfort and convenience, giving them enough space to practice sustainable living, to congregate, and to have access to amenities suitable for creating meaningful bonds and nurturing relationships.

The launch of SMDC's Gold City in Parañaque City, a mixed-use community that integrates residential, office, and commercial spaces, marked a milestone for the company as it exemplified a design idea that champions work-life integration. Light 2 Residences in Mandaluyong City offers a generous open space through an approximately one-hectare park and amenities where residents can find relief in the midst of a bustling EDSA and Mandaluyong CBD. Style Residences perfectly illustrates the lifestyle of convenience and accessibility through its integration to SM City Iloilo's complex.

SMDC's growth continued to skyrocket in 2019 as it posted a double-digit increase in sales. The company launched five key projects, including Glam Residences along EDSA, Quezon City; Sail Residences in MOA Complex; Light 2 Residences in Mandaluyong City; and Gold Residences in Parañaque City.

SMDC's regional expansion includes the launch of Style Residences in Iloilo City. Three projects posted record-breaking sales: Glam Residences, which is 91% sold, Style Residences, which is 80% sold, and Gold Residences, which sold out in 3 days, contributing Php17 billion in sales.

The home of 'The Good Guys'

SMDC continues to reach out to the communities it has built through The Good Guys campaign, a series of activities that fosters connection and awareness among residents.

SMDC relentlessly challenges the standards of real estate development. In 2019, the company received a total of 33 design awards and four CSR awards from

Sail Residences

prestigious award-giving bodies. The recognitions include Best Developer in the Philippines by Dot Property awards and project-specific design awards from Property Guru. SMDC's projects were also recognized internationally, having won awards in Japan, Thailand and China.

Looking forward to the future

As SMDC looks to the future, it will continue to build integrated lifestyle districts that provide its communities ready access to the essentials. Units with ample lighting and natural ventilation, wifi-equipped lobbies with open-air lounges, and co-working spaces will provide the perfect setting for the various needs of its residents.

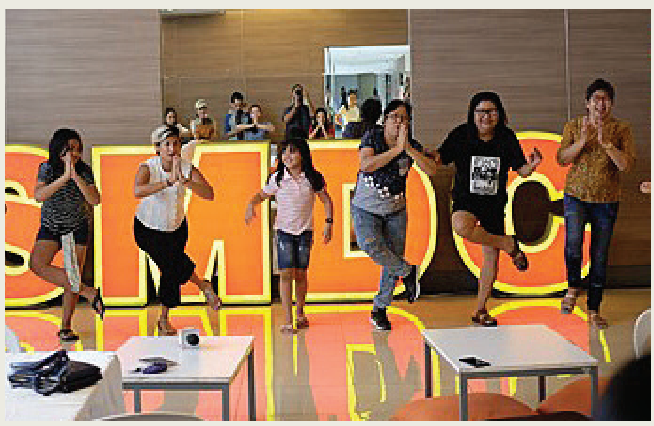
SMDC Co-Working Space

SMDC

The SMDC Happynings community event encourages residents to go out, play, and create lasting memories with their neighbors.

Through health and wellness programs, SMDC builds happy, healthy, and thriving communities. The YOU MATTER campaign was launched among SMDC's young residents, promoting positive well-being through mental health awareness talks and basketball clinics.

SMDC took a holistic approach to enhance the well-being of its elder residents with activities that stimulated their minds, bodies, and spirits. A month-long Grandparents' Day celebration in partnership with The Sunshine Place was conducted to kick off a series of health and wellness activities for the elderly.



YOU MATTER was launched to promote healthy mental well-being among the youth in SMDC properties located along the university belt.

Leisure Homes

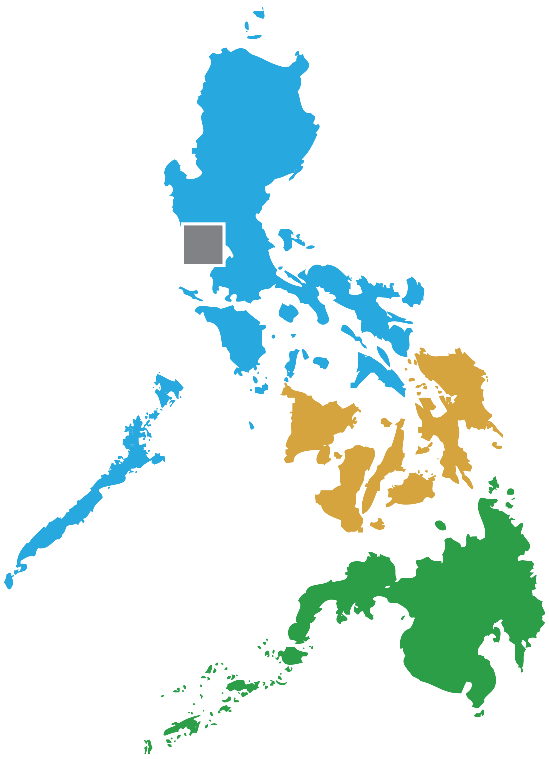
FREIA Showroom Opens
Hamilo Coast's latest residential development at Pico de Loro Cove features sweeping sea view and lush mountainside vistas. FREIA's showroom model units formally opened last 08 February 2019 and showcase a two-bedroom sea view unit designed by Budji+Royal.

Horizon Terraces
Westchase, Horizon Terraces' newest expansion project of Asian contemporary-themed garden suites in Tagaytay Midlands, offers new holistic living spaces amidst nature's postcard sceneries. Westchase units have access to the lush Central Garden with one hectare of verdant greens and exclusive amenities.

The Pines
An exciting addition to the Aspenhills community in Tagaytay Highlands, The Pines was launched as an exclusive development offering only 25 lots where future homeowners can build modern ranch-style homes with mountain lodge architecture overlooking Canlubang.

Topping-Off Ceremony
St. Andrews Condominium topping off ceremony was held to mark its completion. Horizon Terraces, Highlands Prime's latest condominium development has majestic views of Taal Lake and the Tagaytay Midlands Golf Course.

Residential Projects



SM DEVELOPMENT CORPORATION

METRO MANILA

Chateau Elysee
Mezza Residences
Berkeley Residences
Grass Residences
Sea Residences
Field Residences
Princeton Residences
Sun Residences
Jazz Residences
Light Residences
Blue Residences
M Place at South Triangle
Mezza II Residences
Shine Residences
Green Residences
Shell Residences
Breeze Residences
Grace Residences
Shore Residences
South Residences
Trees Residences
Air Residences
Fame Residences
Shore 2 Residences
Coast Residences
Spring Residences
S Residences
Vine Residences
Shore 3 Residences
Bloom Residences
Red Residences
Leaf Residences
Hill Residences
Lush Residences
Gold Residences
Glam Residences
Sail Residences
Light 2 Residences

LUZON

Wind Residences
Cool Suites
Cheer Residences
Cheerful Homes
Green 2 Residences
Hope Residences
Charm Residences
Park Residences

VISAYAS

Style Residences

MINDANAO

Lane Residences

HIGHLANDS PRIME, INC.

LUZON

Pueblo Real
Woodlands Point (Phase 1 and 2)
Hillside
Horizon
Vireya
Vireya 2 & 3
Woodridge Place (Linden Building)
Aspenhills
Woodridge Place (Mahogany Building)
Sierra Lago
Horizon Terraces Condo 1
Horizon Terraces Townhouse 2
Horizon Terraces Condo 2
Horizon Terraces Garden Suites 3
The Pines at Aspenhills

COSTA DEL HAMILO, INC.

LUZON

Carola
Jacana
Miranda
Myna
Freia

SUSTAINING GROWTH

FiveE-com Center lobby

The Commercial Properties Group (CPG) has maintained a healthy pipeline of office buildings the past several years. The continued success of the group can be attributed to the full occupancy of the E-com Centers and Cyber buildings – outperforming the market and higher than the average occupancy rate of 94% seen across Metro Manila during the fourth quarter of 2019 as reported by international real estate consultancy firm Jones Lang LaSalle (JLL).

CPG continues to attract Fortune 500 companies and companies from various industries such as financial services, business process outsourcing, knowledge process outsourcing, logistics, telecommunications, and retail. Amazon, Visa, Emerson, Concentrix, Maersk, and Teletech are some of its major tenants.

This year, the Asia Pacific International Property Awards recognized the FourE-com Center for its office architecture. At the same time, the Best Commercial High-Rise Architecture award was given to ThreeE-com Center. The latter, which is the group's first standalone US Green Building Council's LEED Gold-certified property, was also recognized as the Best Green Project of the Year during the Outlook 2019.

CPG recognizes the importance of not just delivering architecturally recognized buildings but the value of investing in optimized building features to achieve operational efficiency, benefiting the tenants who have chosen their properties. These include water use reduction, efficient water landscaping, innovative wastewater management, and enhanced refrigerant management, to name a few. These are areas wherein the USGBC awarded the ThreeE-com Center a perfect score.

The West Tower of FourE-com Center is scheduled for completion in the near-term, while the South Tower will be completed in 2021. The construction of the SixE-com Center is also expected to commence in 2021. All these projects are planned to keep pace with the demand for premium office space, particularly in the Bay Area of Pasay City.

VOYAGE TO THE FUTURE

Conrad Manila's Presidential Suite

SM Hotels and Conventions Corp. (SMHCC), a subsidiary of SM Prime, has taken great strides in developing top-tier hotels and convention centers across the country. In 2019, Conrad Manila's Presidential Suite was awarded the "Hotel Suite Asia Pacific 2019 Winner" at the International Hotel and Property Awards in Capri, Italy.

In 2020 onwards, SMHCC focuses on sustainable, strategic expansion, encouraged by its exceptional growth throughout the years. Its goal to double its portfolio within the next five years is propelled by its vision to build and operate hotels and convention centers that take pride in the Filipino warmth and hospitality. These values will reflect in the company's upcoming properties, which include significant developments and extensions in both its hotel and convention center arms.

SMHCC continues to make a name in the hospitality landscape with plans for its upcoming hotels, increasing the rate of its already bullish growth. Alongside its existing properties, future hotel developments will not only integrate new best practices and international standards, but also customized and decisive programs and policies that will uplift the guest's overall safety and quality of experience.

Notably, the company's SMX Convention Center arm will also branch out. Beginning with properties and extensions to existing hotels and malls, the SMX Convention Center will move further into a category of its own, emphasizing the distinct caliber of its properties attributed by its excellent location, extraordinary facilities, and unrivalled service from its highly trained event professionals.

Park Inn by Radisson Iloilo

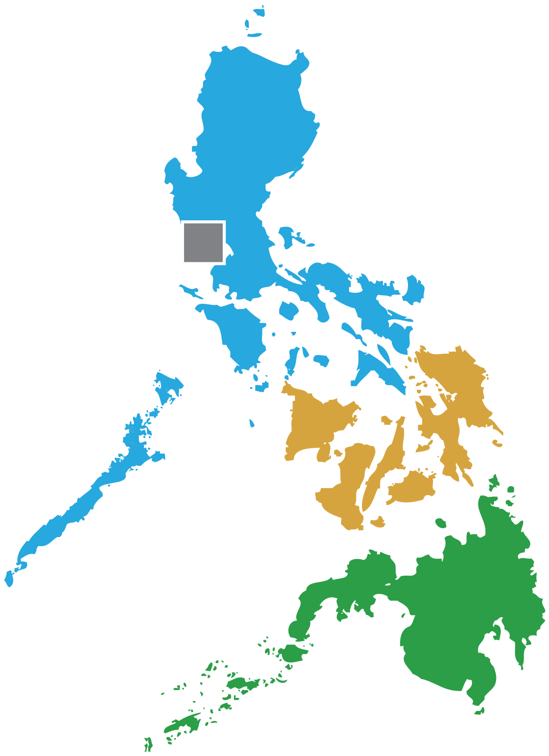
Ultimately, SMHCC's properties will be placed at the core of each integrated property, enabling convenience, entertainment, and tourism that have never been seen before.

SMHCC is set to open the first Lanson Place in the Philippines, an innovative development model that offers an immersive 360-degree experience in local events and activities, redefining leisure and lifestyle due to its tactical placement in core business and entertainment regions.

Serving as a catalyst for improving the tourism sector, SMHCC provides the infrastructure that contributes to national growth and development. Its clearly-defined roadmap paves the way towards a relentless growth, supplemented by its unparalleled culture of excellence and service promising beyond what is simply expected. On the horizon are SMHCC's aspirations epitomized by its ardent leaders leading the way to a solid and bright future, which robustly broadens the company's brand footprint across the Philippine archipelago.

The company's SMX Convention Centers arm will branch out in the next five years, beginning with properties and extensions to existing hotels and malls rising in Olongapo, Clark, Santa Rosa, Cebu, Iloilo, and Mall of Asia Complex.

Offices, Hotels, and Convention Centers



OFFICES

METRO MANILA

Makati Cyber One
Makati Cyber Two
TwoE-com Center
SM Cyber West
FiveE-com Center
ThreeE-com Center
Aura Office Tower
SM Southmall South Tower
NU Mall of Asia (NUMA) Building

LUZON

SM Taytay BPO Tower
SM The Core Tower 1
SM Clark BPO Tech Hub

HOTELS

METRO MANILA

Conrad Manila
Park Inn by Radisson North EDSA

LUZON

Taal Vista
Pico Sands
Park Inn by Radisson Clark

VISAYAS

Radisson Blu Cebu
Park Inn by Radisson Iloilo

MINDANAO

Park Inn by Radisson Davao

CONVENTION CENTERS

METRO MANILA

Megatrade Hall
SMX Convention Center Manila
SMX Convention Center Aura

VISAYAS

Cebu Trade Hall
SMX Convention Center Bacolod
Sky Hall Seaside Cebu

MINDANAO

SMX Convention Center Davao

SUSTAINABILITY REPORT

Mangroves in Hamilo Coast

To access the full SM Prime Sustainability Report, scan the QR Code or go to http://bit.ly/SMPH_SR19

TRAILBLAZING AND TRANSFORMATIVE HUMAN CAPITAL DEVELOPMENT

"As we grow, our employees grow with us because at SM, we are family." This is the SM LIFE principle statement which encapsulates the essence of SM Prime's people transformation journey that started in 2017. Anchored on our signature SM LIFE Talent Management Experience and delivered through the five HR Centers of Excellence – Recruit, Perform, Develop, Reward, and Engage Right – HR strives to bring forward cutting-edge people initiatives that enhance the employee experience while strengthening the corporate values of being PRIME (Performance-Driven, Results-oriented, Intense, Mindful, and Exceptional).

2019 was a year of harvest for the SM Prime Group after being recognized for over-all excellence in Human Capital development.

First, HR Asia named SM Prime as one of the Best Companies to Work For in Asia (Philippine leg) for its transparency, support to employee growth and development and its efforts to continuously engage its workforce in various initiatives that are dedicated to employee welfare and community building. The regional publisher owned by Business Media International, is one of Asia's leading business-to-business publishers, having the best reach among professionals in the region and channeling content to over 30,000 top HR professionals through multiple platforms.

In the same year, SM Prime Holdings, Inc. and SM Supermalls received separate recognitions as one of the best employer brands in Asia at the 10th Asia's Best Employer Brands Awards for excellence in HR through innovative initiatives that create a positive brand experience including contributions to talent management and development. The award ceremony, hosted by the World HRD Congress and the Employer Branding Institute was held at the Pan Pacific, Singapore.

Both awards add to SM Prime's and SM Supermalls' previous wins as one of the Philippines' Best Employer Brands, a recognition that was also accorded to SM Lifestyle, Inc.

These honors demonstrate the organization's competencies and bear a testimony that through our consistent efforts in engaging, empowering and enabling our people, we are able to continuously shape a happy, mindful and productive workforce, which is at the heart of SM LIFE – that of "Working Together With A Happy Heart!".

ICD AWARDS ACGS FOUR GOLDEN ARROWS TO SM PRIME

SM Prime, one of the largest property developers in Southeast Asia, received Four Golden Arrows award from the Institute of Corporate Directors (ICD) and the ASEAN Corporate Governance scorecard (ACGS) during the 1st ACGS Golden Arrow recognition ceremony held last June 11 at the Conrad Manila in Pasay City.

The ACGS Golden Arrow recognition is given to publicly listed companies (PLCs) that have earned a score of 80 points or higher, and are considered as one of the top-performing companies under the ACGS. SM Prime received Four Golden Arrows for scoring 110-119 points in its ACGS Scorecard.

Along with SM Prime, nine other companies in the SM Group, including its parent company, SM Investment Corporation (SMIC), were cited among the top PLCs in the Philippines as reflected in their ACGS scores from ICD's 2018 domestic assessment. These companies were also awarded the Golden Arrow recognition by the ICD.

As a responsible corporate citizen, SM Prime has always believed that good governance is essential to the continued success of its business. Having been a PLC for 25 years, it recognizes that robust corporate governance policies and practices promote a fair and sound market valuation of the Company's shares while maintaining the confidence of customers and investors. With the adoption of rigorous benchmarking methodologies like the ACGS, it strongly supports initiatives to strengthen regional capital market development and integration.

ACGS is part of the ASEAN Corporate Governance Initiative that aims to raise good governance standards and practices in the region and enhance the value of well-governed ASEAN companies. SM Prime remains committed to its role as a catalyst for economic growth, delivering innovative and sustainable Lifestyle Cities, and thereby enriching the quality of life of millions of Filipinos.

Four Golden Arrows Awards


PRIME
www.smprime.com

Corporate Governance

SM Prime Holdings, Inc. believes that good governance is essential to the continued success of its business and is dedicated to foster a culture of fairness, accountability, and transparency at all levels within the organization. These principles constitute the foundation of SM Prime's Corporate Governance Framework and are embedded in every aspect of the Company's operations and its dealings with various stakeholders.

The Company's good corporate governance practices have helped establish SM as a strong brand which customers, investors, business partners, and other stakeholders trust. The Company and its business units have consistently won recognition and awards from various bodies. This certainly sustains the Company's competitive advantage, as demonstrated by, among others, global brands' preference to locate in SM properties, as well as foreign investments flowing into the Company.

SM Prime's intent to create value at all times in all businesses it operates is marked not just by the product quality and service excellence but, more importantly, has a heart that cares for its customers, communities, and the environment to ensure sustainable growth and progress.

THE BOARD OF DIRECTORS

SM Prime's Board of Directors is at the helm of its governance structure. It is the Board's responsibility to formulate and ensure the achievement of the Company's vision and mission in a manner that upholds the values of focus, hard work, innovation, integrity, teamwork, and sustainability.

The Board also plays a leading role in the establishment of the Company's strategic framework, setting the overall strategic direction, and reviewing and monitoring its progress at least on an annual basis. Through the Chief Compliance Officer, the Board reviews business units' strategies and targets and monitors their progress towards achieving the Company's strategic objectives.

SM Prime's Revised Manual on Corporate Governance specifies the duties and responsibilities of the Board of Directors and delineates the roles of the Chairman of the Board and the President. This separation of roles ensures an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making.

To ensure a high standard of best practice for the Company, its stockholders and other stakeholders, the Board conducts itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- Formulates the Company's long-term vision and mission;
- Oversees the development and approval of the Company's business objectives and strategy, and monitors their implementation;
- Ensures and adopts an effective succession planning program for directors, key officers, and management;
- Aligns the remuneration of key officers and Board members with the long-term interests of the Company;
- Discloses in the Corporate Governance Manual a formal and transparent board nomination and election policy;
- Ensures that a group-wide policy and system are governing related party transactions (RPTs) and other unusual or infrequently occurring transactions;
- Approves the selection and assessing the performance of the Management and control functions;
- Establishes an effective performance management framework that will ensure that the Management and personnel's performance is at par with the standards;
- Oversees that an appropriate internal control system and a sound enterprise risk management (ERM) framework is in place;
- Ensures a Board Charter is in place and is publicly available;
- Discloses within three business days any transactions related to their own SM Prime shares; and
- Performs other duties and responsibilities as may be assigned by the Securities and Exchange Commission (SEC).

Board Committees are set up to assist the Board in the performance of their functions particularly, with respect to audit, risk management, related party transactions, and governance. The Board, through the work performed by its Committees, is of the opinion that the Group's systems of internal control and risk management are adequate and effective to address the financial, operational, and compliance risks. The composition, duties, and responsibilities of all committees are publicly available in the corporate website.

The Board is also assisted by a Corporate Secretary to ensure the effective discharge of its duties and responsibilities. The Corporate Secretary assists the Chairs of the Board and its Committees in the preparation of agenda for Board meetings, puts the Board on notice before every meeting, and assists the Board in making business judgments in good faith. The Corporate Secretary gathers and analyzes documents, records, and other information, including updates and changes to relevant rules, laws, and regulations, and keeps the Board abreast of matters essential to the conduct of their duties and responsibilities.

Board Composition

Director's Name	Directorship	Age	Date First Elected	Elected When (Annual/Special Meeting)	No. of Years as Director
Jose L. Cuisia, Jr.	Lead Independent	75	April 1994	Annual	26
Gregorio U. Kilayko	Independent	65	April 2008	Annual	12
Joselito H. Sibayan	Independent	61	April 2011	Annual	9
Henry T. Sy, Jr.	Non-Executive	66	April 1994	Annual	26
Hans T. Sy	Non-Executive	64	April 1994	Annual	26
Herbert T. Sy	Non-Executive	63	April 1994	Annual	26
Jorge T. Mendiola	Non-Executive	60	December 2012	Annual	7
Jeffrey C. Lim	Executive	58	April 2016	Annual	4

Board Independence

The Board is composed of three independent directors that possess all the necessary qualifications and none of the disqualifications to hold the position. Mr. Jose L. Cuisia, Jr. serves as the Board's lead independent director primarily to reinforce proper mechanisms for disclosure, protection of the rights of shareholders, the equitable treatment of shareholders, and the accountability of the Board and Management are in place, in cases where Management has clear conflicts of interest. Directors with a material interest in any transaction with the Company are also expected to abstain from the deliberation of the same.

Board Diversity

The Board has adopted a board diversity policy that aims to create and maintain an atmosphere of constructive challenge and debate, requiring the right balance of skills, competence, experience, and perspectives among the directors. Diversity at the board level is an essential element of sound corporate governance, sustainable and balanced development, and effective business strategy. Diversity may refer to age, ethnicity, culture, skills, competence, knowledge, gender, among other things, in consideration of the selection of the Board's composition.

To monitor progress in achieving the Board's diversity objectives, the Company's Corporate Governance Committee uses a Board Matrix, which sets out the mix of attributes, skills, affiliations, competencies, and experience the Board currently has and is looking for to complement its existing composition. Its structure reflects the areas relevant to the Company's strategic objectives, as well as other areas of general relevance to the composition of the Board.

Board Performance and Attendance

Regular board meetings are held quarterly and scheduled in advance during the previous year. Special meetings may also be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors.

As provided in the Revised Manual on Corporate Governance, the Chairman of the Board makes certain that the meeting agenda focuses on strategic matters in coordination with the Corporate Secretary, while taking into consideration the advice and suggestions of the Board and Management. Board papers are made available to all directors at least five (5) business days before the regular/special board meeting to give ample time to all Board members to study items for discussion and decision-making.

The Board of Directors had ten (10) regular and special meetings in 2019 on the following dates: February 11, April 23, May 6, July 15, September 5, October 23, November 4, November 21, and December 9. All meetings registered 100% attendance of members of the Board of Directors. Apart from these meetings, non-executive and independent directors met separately during the year without the presence of Management.

Board Training and Orientation

SM Prime ensures that directors are able to perform their functions effectively in this rapidly changing environment to cope with heightened regulatory, foreign, or local demands and the growing complexity of the business. Orientation programs are conducted for first-time directors to ensure that new members are appropriately apprised of their duties and responsibilities. This includes an overview of the Company's operations, Code of Conduct, Corporate Governance framework, and other relevant topics essential in the performance of their functions.

As a matter of continuous professional education, the Corporate Governance Committee facilitates the training opportunities provided by accredited or duly recognized institutions to update and refresh the Board's knowledge and skills. Annual Corporate Governance Training Programs were conducted by various accredited training providers, namely: Institute of Corporate Directors, Center for Global Best Practices and SGV & Co. Each director and key officer have attended at least one training session. The annual CG training conducted by the aforementioned providers covered the following topics:

- Digital Governance
- Culture of Innovation and Technology
- Revised Corporation Code
- Anti-Money Laundering
- Succession Planning
- Organizational Change Management
- Board Effectiveness
- Financial Reporting

Name of Director/ Officer	Date of Training	Program	Name of Training Institution
Henry T. Sy, Jr.	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Hans T. Sy	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Herbert T. Sy	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Gregorio U. Kilayko	November 8, 2019	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Joselito H. Sibayan	November 8, 2019	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Jose L. Cuisia, Jr.	August 13, 2019	Revised Corporation Code, Succession Planning and Organizational Change Management	SGV & Co.
Jorge T. Mendiola	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Jeffrey C. Lim	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Elizabeth T. Sy	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Teresita Sy-Coson	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Elmer B. Serrano	July 24, 2019	2019 Corporate Governance Seminar of BDO Unibank, Inc.	Banco de Oro Unibank
Arthur A. Sy	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
John Nai Peng C. Ong	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Marvin Perrin L. Pe	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Teresa Cecilia H. Reyes	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Alexander D. Pomento	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Christopher S. Bautista	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Steven T. Tan	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Jose Mari M. Banzon	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Shirley C. Ong	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Ma. Luisa E. Angeles	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors
Russel T. Sy	August 15, 2019	Annual Corporate Governance Training Program	Institute of Corporate Directors

Board Committees

The Board has established five (5) committees to aid in the performance of its duties. Each committee has adopted a Charter, which defines its composition, roles, and responsibilities based on the provisions found in the Revised Manual on Corporate Governance. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings, reporting to the Board, structures, and other related information.

BOARD COMMITTEES

EXECUTIVE COMMITTEE

MEMBERS	DESIGNATION	DIRECTORSHIP
Hans T. Sy	Chairman	Non-Executive
Henry T. Sy, Jr.	Member	Non-Executive
Herbert T. Sy	Member	Non-Executive
Elizabeth T. Sy	Member	Non-Director
Jeffrey C. Lim	Member	Executive
John Nai Peng C. Ong	Member	Non-Director

AUDIT COMMITTEE

MEMBERS	DESIGNATION	DIRECTORSHIP
Jose L. Cuisia, Jr.	Chairman	Independent
Joselito H. Sibayan	Member	Independent
Gregorio U. Kilayko	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

BOARD RISK OVERSIGHT COMMITTEE

MEMBERS	DESIGNATION	DIRECTORSHIP
Gregorio U. Kilayko	Chairman	Independent
Jose L. Cuisia, Jr.	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

CORPORATE GOVERNANCE COMMITTEE

MEMBERS	DESIGNATION	DIRECTORSHIP
Joselito H. Sibayan	Chairman	Independent
Gregorio U. Kilayko	Member	Independent
Jose L. Cuisia, Jr.	Member	Independent

RELATED PARTY TRANSACTIONS COMMITTEE

MEMBERS	DESIGNATION	DIRECTORSHIP
Joselito H. Sibayan	Chairman	Independent
Gregorio U. Kilayko	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

A. The Executive Committee

The Executive Committee functions when the Board of Directors is not in session. Generally, the committee is responsible for assisting the Board in overseeing the implementation of strategies and long-term goals, reviewing major issues facing the organization, monitoring the operating activities of each business group, and defining and monitoring the Company's performance improvement goals.

Regular committee meetings are scheduled at least once a month. In accordance with the Revised Manual on Corporate Governance, actions of the Executive Committee are reported to the Board of Directors at the Board meeting immediately following such action, and are subject to revision or alteration by the Board, as necessary.

B. The Audit Committee

The Audit Committee assists and advises the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's accounting, financial reporting, auditing practices, risk management, and internal control systems and adherence to over-all corporate governance best practice. The Committee also oversees the Company's process for monitoring compliance with laws, regulations, the Code of Ethics, and performs other duties as the Board may require. The committee met four (4) times in 2019, with 100% attendance in all meetings. Mr. Gregorio Kilayko was able to attend 3 out of 4 meetings as he was only added to the committee effective May 6, 2019.

C. **The Risk Oversight Committee**

The Risk Oversight Committee oversees the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. This Committee assists the Board in ensuring that there is an effective and integrated risk management process in place. The Committee had four (4) meetings in 2019, with 100% attendance in all meetings.

D. **The Corporate Governance Committee**

The Corporate Governance Committee assists the Board in the performance of its corporate governance responsibilities, including functions that were formerly assigned to the Nomination and Compensation and Remuneration Committees. The Committee believes that prudent and effective corporate governance practices constitute the foundation of the Company's strength and long-term existence to enhance and maximize long-term shareholder value. The Committee had four (4) meetings in 2019 with 100% attendance in all meetings.

E. **The Related Party Transactions Committee**

The Related Party Transactions Committee reviews all material related party transactions (RPTs) of the Company. The mandate for this Committee includes the evaluation of the RPTs explicitly to ensure that these are undertaken upon terms not less favorable to the Company than those offered to any unaffiliated third party under the same or similar circumstances and overseeing the implementation and regular review of the related party transactions policy. The Committee had three (3) meetings in 2019, with 100% attendance in all meetings.

Board Remuneration

Members of the Board of Directors receive a per diem of PHP10,000 (PHP20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. The amount of the per diem is openly discussed during the Annual Stockholders' Meeting and approved by SM Prime's stockholders. Total compensation paid to directors is disclosed annually in the annual report filed with the Securities and Exchange Commission.

Board Evaluation

Annually, the Corporate Governance Committee facilitates the evaluation of the performance of the Board as a whole, its respective Board Committees, the individual directors and the President, based on duties and responsibilities provided in SM Prime's Revised Manual on Corporate Governance and By-Laws. Specifically, the evaluation focuses on the following:

Board Composition	• Diversity (Experience, knowledge, expertise, gender, age, cultures, etc.) • Mix of competencies • Appropriate number of total directors and independent members • Adequate set of Committees
Board Activities	• Quality, timeliness and ease of access to information provided by the Company • Quality of the interactions and communication with CEO and executive officers • Clear and formal processes to guarantee independence and mitigate conflicts of interests • Orientation and guidance to the Company CEO and executive officers • Work in general • Decision making • Discussions on short/long term development • Discussion on business strategies and plans • Discussion on risks and regulations • Follow-up of business plans, strategies, objectives, and budget
Board and Board Committee Meetings	• Frequency and length of meetings sufficient to accomplish goals • Full, positive and balanced participation of directors during meetings

Individual Directors	• Strategic vision • Ability to work in a team • Time availability and commitment • Knowledge and alignment to the Company's values and culture • Intellectual independence • Communication abilities • Continuous self-education and development
President	• Leadership and commitment • Independence and integrity • Diligence • Constructive relationship with the Board, its Committees and its respective members

The annual evaluation also serves as a venue for identifying areas for improvement in terms of trainings, continuing education programs, or any other forms of assistance that the directors may need in the performance of their duties. The evaluation forms also include support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings, and their accessibility to Management, the Corporate Secretary and Board advisors. Every three years, the board evaluation is supported by an external facilitator.

In 2019, the SM Prime Board underwent a Board Evaluation facilitated by the Institute of Corporate Directors. The Board Evaluation utilized both questionnaires and interviews to gauge the performance of the Board. The third-party evaluation was facilitated by fellows from the Institute of Corporate Directors, Mr. Rex Drilon, and Dr. Aniceto Fontanilla.

The Board reviews and evaluates the results of the evaluation, and discusses possible changes that will enhance the performance of the individual directors and the Board as a collective body. The results of the review are then considered by the Corporate Governance Committee in the continuing education of Board members and assessment of potential candidates for the next election of the Board of Directors.

CORPORATE GOVERNANCE RELATED POLICIES

Manual on Corporate Governance

SM Prime's Revised Manual on Corporate Governance, which was adopted on 20 February 2017, institutionalized the principles of good corporate governance by clearly defining the roles and responsibilities of the Board of Directors and Management, promoting disclosure and transparency, strengthening the internal control system and risk management framework and cultivating a synergic relationship with various stakeholders.

All directors, officers, and employees are expected to comply with all the provisions of the Revised Manual on Corporate Governance. The Company's Compliance Officer is tasked to monitor compliance with the Manual and impose corresponding penalties for non-compliance.

Code of Ethics

The Code of Ethics states the principles that guide the Company's directors, officers, and employees in the performance of their duties and responsibilities and their transactions with investors, creditors, customers, contractors, suppliers, regulators, and the general public. The Code requires full compliance with all applicable laws and regulations.

In line with SM Prime's mission, the Code of Ethics underscores the Company's commitment to promote and protect the welfare of its employees, customers, and the communities where its businesses operate. The Code likewise emphasizes the need to protect, sustain, and enhance the environmental, social, and economic resources needed to deliver long-term growth.

Related Policies and Programs

To complement the principles provided by the Manual on Corporate Governance and Code of Ethics, the Company developed several policies and programs that deal with specific implementation areas:

Insider Trading Policy

All directors, officers, employees and other covered persons as defined in the Insider Trading Policy are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts, interest in businesses of competitors, participation in other organization or activities and close personal relationships in the Company or its affiliates and subsidiaries. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.

Related Party Transactions
Full disclosure of the details, nature, extent, and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE shall be observed at all times. Details of transactions entered into by the Company with related parties are required to be reviewed by independent directors in accordance with the RPT Policy, to ensure these are conducted at arms' length. Related Party Transaction Policy was updated in 2019 to adhere to the SEC Memorandum Circular on Rules on Material Related Party Transactions.

Conflict of Interest
All directors and employees are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts, interest in businesses of competitors, participation in other organization or activities and close personal relationships in the Company or its affiliates and subsidiaries. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.

Acceptance of Gifts and Travel Sponsored by Business Partners (Anti-Corruption Policy)
The Company prohibits the solicitation or acceptance of gifts and travel in any form from a business partner, directly or indirectly, by any director, officer, or employee of the Company. The policy is intended to ensure integrity in procurement practices and the selection of the most appropriate business partner in each instance.

Policy on Accountability, Integrity, and Vigilance (Whistleblowing Policy)
The Company aims to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Any director, officer, employee, customers, shareholders, vendors, suppliers and other stakeholders may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable policy, law or regulation. The policy provides for the conduct of an investigation of the incident report. The policy also includes provisions for non-retaliation against the filer of the incident report. Upon receipt of the incident report, Management conducts an investigation on its merit, subject to due process, and impose applicable penalties and sanctions thereafter.

Creditors' Rights
The Company shall respect agreements with creditors, manage loans according to lending objectives, ensure timely repayment of loans and interests, thoroughly honor loan conditions as agreed, and competently operate the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.

Supplier Selection
The Company adheres to the principles of healthy competition, equal opportunity, and fair treatment of business partners. As such, the selection of suppliers follows an open, competitive, and non-discriminatory process. SM Prime implements a vendor enrolment process that screens qualifications of vendors/suppliers the Company will deal with. Such qualifications include the legality of entity or business, adequacy of financial strength, compliance with SM Prime policies such as conflict of interest disclosure requirements and ethical standards, and support to SM Prime's environmental missions, health and safety culture.

Guidelines on Placement of Advertisements
The Company prohibits the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where SM Prime or any of its subsidiaries, director, officer, or employee is one of the nominees vying for the award. The Company may consider placing advertisements in such publications as part of its overall marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to the Company or to any of its subsidiaries, director, officer, or employee.

Alternative Dispute Resolution System
The Company establishes an alternative dispute resolution system to settle intra-corporate disputes in an amicable and effective manner. As such, the Board of Directors normally engages the services of a neutral third party to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative dispute

resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the circumstances see fit.

Privacy Policy
The Company collects, uses, protects or otherwise handles its data subjects' personal data in accordance with Republic Act No. 10173, or the Data Privacy Act of 2012, and its Implementing Rules and Regulations (collectively, the "Data Privacy Act").

Communication and Compliance

SM Prime understands that the continuous growth and development of its corporate governance culture rests on the promotion and awareness of the principles of good governance. As such, the Company continues to strengthen its training and orientation programs. Through the Human Resource Department's (HRD) orientation program, new employees are given an overview of the various components of SM Prime's Corporate Governance Framework, the Code of Ethics and related policies which are also contained in an internal portal for employees' easy access and reference. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics. Relative to this, the HRD, on an annual basis, requires all employees to re-take the 3-part Corporate Governance program. This specifically includes the following:

- Confirmation – to confirm that employees have read and understood and agrees to comply with the Company's Code of Ethics, Insider Trading Policy, Conflict of Interest Policy, Code of Discipline and Guidelines on Acceptance of Gifts and Travel Sponsored by Business Partners (Anti-Corruption Policy), among others.
- Disclosure Survey - to disclose each employees' affiliations, interests, relationships, and/or transactions that are relevant for full disclosure of all actual, apparent, or possible conflicts of interest.
- e-Learning Courses (self-paced learning) - to be familiarized with the provisions of the Code of Ethics and other specific policies in upholding corporate governance in the workplace.

ENTERPRISE RISK MANAGEMENT

SM Prime follows an 8-step Risk Management Approach, which starts from the identification and prioritization of risks to the assessment of risk interrelationship and analysis of the sources of risks, then to the development of risk management strategies and action plans, and ultimately, to the monitoring and continuous improvement of the risk management process.

The Board, through its Risk Oversight Committee (ROC), is responsible for the oversight of the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. On a quarterly basis, the ROC is updated on the status of risk management and risk mitigation plans of the Company. Action plans to mitigate risks include investment in technology, provision of continuous training of employees, the performance of regular audits, establishment, and implementation of policies for a strong IT governance, and constant partnerships with various stakeholders.

The Board puts emphasis on prudent IT risk management. It ensures adequate control measures are in place to protect the confidentiality, integrity, and availability of all physical and electronic information assets of the Company to make certain that regulatory, operational, and contractual requirements are satisfied. In terms of cyber security management, the Company has adopted globally accepted standards to employ a similar approach to cyber security strategies within the organization.

DISCLOSURE AND TRANSPARENCY

SM Prime is committed to providing its stockholders and the public, timely, and accurate information about the Company and its business. In accordance with this, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate Corporate Governance section that features, among others, the Revised Manual on Corporate Governance, Annual Corporate Governance Report, and Scorecard, Code of Ethics, and other relevant policies, programs, and important information. SM Prime also publishes a separate Environmental, Social and Corporate Governance Report, which highlights its policies and programs on corporate governance, social responsibility, and environmental sustainability, among others.

Moreover, the Investor Relations Department is tasked with a program of proactive, uniform and appropriate communication through full disclosure in compliance with the regulatory bodies and serves as the main avenue of communication between the Company and its various stakeholders. Likewise, the Company conducts regular briefings and meetings with investors, analysts, and the press to keep them updated on the Company's various projects, as well as its financial and operational results. The presentation materials used in these briefings, as well as the Company's SEC and PSE reports and annual reports, may be viewed and downloaded from its website.

RIGHTS, ROLES, AND PROTECTION OF STAKEHOLDERS

The Revised Manual on Corporate Governance asserts the rights of stockholders and the protection of minority interests. It is the duty of directors to promote stockholder rights, remove impediments to the exercise of these rights, and allow possibilities for stockholders to seek redress for violation of their rights.

Rights of Shareholders

Voting Right - All stockholders are entitled to vote following the one-share-one-vote system. Stockholders, whether individual or institutional, through their representative, are encouraged to personally attend the Annual Stockholders' Meeting to exercise their voting rights, thereby allowing them to individually elect candidates to the Board of Directors and vote on matters requiring stockholder approval. Nevertheless, proxy voting is permitted and is facilitated through proxy forms available on the Company's website and distributed to stockholders along with the Notice of Meeting. For the Year 2019, the Company has introduced electronic voting, which may be utilized by the Company's certificated stockholders if not attending in person, enabling them to exercise their right to vote in a quick and convenient manner.

Inspection Right and Access to Information - All stockholders are given the right to inspect corporate books and records at reasonable hours on business days in accordance with the Revised Corporation Code of the Philippines and be furnished with copies of the Company's Annual Report and financial statements. Stockholders may also request the Company to provide periodic reports about its directors and officers, as well as matters for which Management is accountable. Moreover, minority shareholders are granted the right to propose the holding of a meeting and the right to propose items in the agenda of the meeting provided the items are for legitimate business purposes and in accordance with the law, jurisprudence, and best practice.

Right to Dividend - The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs, and debt servicing requirements. The Company's dividend policy is to declare annual cash dividends equivalent to 30%-35% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within thirty (30) days from the date of declaration.

Appraisal Right - Stockholders may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares pursuant to Section 80 of the Revised Corporation Code of the Philippines. Procedures for the exercise of this right are provided in the Definitive Information Statement.

Employee Welfare

All officers and employees are to be selected, engaged, and compensated based on qualification and performance. Employees are treated fairly and accorded with respect and dignity. The Company ensures that individual and collective rights are not violated. The Company also maintains a safe, productive, and conducive workplace and comply with all applicable health, safety, and environmental laws. In this regard, company employees are covered by rules against the use of prohibited drugs and working under the influence of liquor. Opportunities for career advancement are provided based on clear performance and qualifications criteria.

Business Continuity

The Company ensures that risk management and control structures and procedures are in place to safeguard its workforce, operations, and customers against emergencies and natural and human-made disasters, which includes the implementation of the Business Continuity Management System (BCMS). The BCMS aims to maintain the reputation, meet the commitments, and ensure the continued operation of the organization, especially the critical business functions with even greater speed, skill and confidence by effectively providing a framework in identifying the potential business threats, their impacts to the organization and implementing appropriate controls.

Training and Employee Development

The Company provides learning and development opportunities regularly for professional growth, covering topics such as Supervisory Development Skills, Coaching for Performance, Code of Ethics, and other values and leadership related programs.

For governance-related issues or concerns, stakeholders may refer to:
Marvin Perrin L. Pe
Vice President – Enterprise Risk Management and Corporate Governance
10th Floor, Mall of Asia Arena Annex Building
Coral Way, Mall of Asia Complex, Pasay City, Philippines
E: corpgovernance@smprime.com

Awards and Citations

SM PRIME HOLDINGS, INC.

10th Asia's Best Employer Brand Awards
Employer Branding Institute
SM Prime Holdings, Inc.

HR Asia Best Companies to Work for in Asia 2019
HR Asia Publication
SM Prime Holdings, Inc.

Philippines Best Employer Brand Awards 2019
Employer Branding Institute
SM Prime Holdings, Inc

1st ASEAN Corporate Governance Scorecard (ACGS) Golden Arrow
Four Golden Arrow Recognition
SM Prime Holdings, Inc.

Corporate Governance Asia Annual Recognition Awards
Asia's Icon on Corporate Governance
SM Prime Holdings, Inc.

Asian Corporate Director Recognition Award 2019
Jeffrey C. Lim, Corporate Governance Asia

MALLS

2019 Asia Pacfic Stevie Awards

Most Honored Organization
Grand Stevie Award
SM Supermalls

Entertainment Apps
Gold
#AweSM Logo Hunt Mobile App

Innovation in Corporate Websites
Gold
#SMoments in a Click: How Customer Centricity Gave a Rebirth to the SM Supermalls Corporate Website

Innovation in the Use of Events
Silver
SM City San Lazaro Women's Month Celebration: Beauty and Its Art

Innovation in Community Relations or Public Service Communications
Silver
SM City Santa Mesa Zesty Feast

Innovation in Branded Entertainment
Silver
SM City Baguio Experience Panagbenga Fun

Innovation in Consumer Events
Silver
South Luzon's Dinos in the Mall
South Luzon's Jungle Safari
South Luzon's Pet Party
SM City Cagayan de Oro Adventures on Ice At SM

Entertainment Events
Silver
Mall of Asia Coffee Festival 2018
Mall of Asia's Grand Festival Of Lights Parade 2018
Very Merry MOA Winter Wonderland 2018
SM City San Fernando Downtown Biggest Lantern of Hope
SM City San Fernando Downtown Castaway Music Festival 5
Summer Mess Fest 2018
SM City Tarlac Belenismo
SM City Tarlac Playdate Project
SM City Cagayan de Oro Adventures on Ice At SM
SM City Cabanatuan Harvest Festival
South Luzon's Grand Magical Christmas Parade
SM City North Edsa Artwalk
SM City North Edsa Manila Street Wear

Innovation in Non-Profit/NGO Events
Silver
SM By the Bay International Coastal Cleanup 2018

Innovation in Energy & Sustainability
Silver
SM City Marilao E-LlumiART

Innovation in Living, Learning, and Working Environments
Silver
SM City Marilao E-LlumiART
SM By the Bay International Coastal Cleanup 2018

Innovation in the Use of Events
Bronze
SM City Manila SHOP MNL: Virtual Dressing Room
SM City Masinag HeroI.SM National Heroes Day Campaign
Bulacan Art Fest
SM City Marikina Pedal Faculty 2018
SM City North Edsa Cologram
SM City North Edsa Glitter Critter Christmas

Use of Social Media
Bronze
#SMoments Digital Campaign

Public Affairs Communications
Bronze
SM City Manila MNL Art Sesh

Innovation in Branded Entertainment
Bronze
SM City Masinag Rizal Biyahe Tayo

Innovation in Consumer Events
Bronze
SM City Marilao Food Fest
Mall of Asia Chinese New Year 2019
South Luzon's Supreme e-Sports Brawl
SM City North Edsa Cheestival

Entertainment Events
Bronze
SM City Bicutan Heartbeats 2.0
SM City Fairview On The Beat
#DearSMSanta Campaign
SM City San Fernando Downtown Pyrofest 7
SM City Cabanatuan Fireworks Fest

Innovation in Energy & Sustainability
Bronze
SM City Tarlac Belenismo

2019 PR Awards
Best PR Campaign: Entertainment Category
Silver
SM Little Stars

2019 International VM Awards by Retail Expo

Grand Prix Winner
SM City Dasmarinas' Pinball-machine Themed 'Interstellar Holiday' Christmas display

Shopping Centres, Town Centres and Airports' category
Winner
SM City Dasmarinas' Pinball-machine Themed 'Interstellar Holiday' Christmas display

2019 Dragons of Asia

Best Campaign in the Philippines
Blue Dragon
North 2 & 3 Playdate Project

Best Marketing Discipline
Bronze Dragon
North 2 & 3 Playdate Project

Best Product Launch or Relaunch Campaign
Black Dragon
North 5 Bulacan Arts Fest

Best Innovative Idea or Concept
Black Dragon
SMMR E-lluminart

International Stevie Awards

Marketing Campaign of the Year - Pet Care
Gold
SM South Luzon's Pet Party

Mobile Site & Apps Awards Category
Gold
#DearSMSanta Campaign

Live Events Awards Category - Brand & Experiences - CSR Event
Gold
Mall of Asia's 2018 International Coastal Cleanup

Website Awards Category - Retail
Gold
SM Supermalls Website

Small-Budget Marketing Campaign of the Year
Silver
#VoteForMom 2019 Mom's Day Campaign

Live Events Awards Category - Art, Entertainment & Public - Live Event
Silver
SM City North EDSA Cologram

Brand Experience of the Year - Consumer
Bronze
#VoteForMom campaign
SM Megamall's Light Your Mood Exhibition

Branded Content Campaign of the Year
Bronze
#SMoments Digital Campaign

Live Events Awards Category - Brand & Experiences - Experiential Event
Bronze
MOA's 2018 Grand Festival of Lights
9th Philippine International Pyromusical Competition

IPRA Golden World Awards for Excellence in Public Relations
Arts and Entertainment Category
Gold
SM Little Stars

International Council of Shopping Centers
Public Relations and Events
Silver
#AweSM: SM Celebrates 60

World Branding Awards

'National Tier – Shopping Centre / Mall' Category 2019-2020
Brand of the Year
SM Supermalls

'National Tier – Entertainment - Cinemas' Category 2019-2020
Brand of the Year
SM Cinema

Anvil Awards

Gold
Summer Mess Fest 2018
SM Cinema Reel to Real Campaign: Where Movies Come Alive and Move You

Silver
SM Cinema Reel to Real Campaign: Where Movies Come Alive and Move You
SM Masinag's "HeroI.SM" National Heroes Day campaign

Asia Pacific Tambuli Awards
'Family Centered Brand' category
Bronze
#SMoments Digital Campaign

Philippine Quill Awards

Communication Management - Customer Relations
Award of Excellence
SM Cinema Reel to Real Campaign: Where Movies Come Alive and Move You

Communication Skills - Special and Experiential Events
Award of Excellence
SM Cinema Reel to Real Campaign: Where Movies Come Alive and Move You

Communication Management - Marketing, Advertising and Brand Communication
Award of Merit
Everyday is Play Day
MOA's International Day of Happiness
#AweSM 60 Campaign

Youtube Ads Awards
'Best in 5-second Intro' Category
Bronze
2018 SM Supermalls Christmas video 'Nanay'

RESIDENCES (PRIMARY)

7th PropertyGuru Philippines Property Awards

Best Condo Development – Greater Manila
Development/ Design Awards
Park Residences

Best Mid Range Condo Development – Metro Manila
Development/Design Awards
Field Residences

Best Low Rise Affordable Condo Development – Metro Manila
Development/Design Awards
Trees Residences

Best High End Condo Interior Design
Development/Design Awards
Air Residences

Best Condo Landscape Architectural Design
Development/Design Awards
Shore Residences

Best High End Condo Development – Metro Manila,Highly Commended
Air Residences and Shore Residences

Best Condo Development – Greater Manila,Highly Commended
Cheer Residences and Hope Residences

Best Mid Range Condo Development – Metro Manila,Highly Commended
South Residences

Best High Rise Affordable Condo Development – Metro Manila, Highly Commended
Vine Residences

Best Mid End Condo Development – Metro Manila and Best Mid End Condo Interior Design,Highly Commended
Fame Residences

Best High End Condo Architectural Design,Highly Commended
Air Residences and Coast Residences

Best High End Condo Interior Design Highly Commended
Coast Residences and Shore Residences

Best Condo Landscape Architectural Design,Highly Commended
Fame Residences and Vine Residences

Special Recognition in Corporate Social Responsibility
SMDC HAPPYNINGS

2019 PropertyGuru Asia Property Awards

Best Condo Landscape Architectural Design (Philippines)
Shore Residences

Best High Rise Condo Interior Design (Philippines)
Air Residences

Best Condo Development (Mainland China)
SMDC Silk Residences

PropertyGuru Asia Property Awards (China)

Best Landscape Architectural Design (Mainland China)
SMDC Silk Residences

Best Condo/Apartment Architectural Design (Southwest China)
SMDC Silk Residences

2019 DOT Property Philippines Awards

Best Developer in the Philippines
Best Developer – South Luzon
Best Developer – Davao
SM Development Corporation (SMDC)

2019 DOT Property Southeast Asia Awards
Best Township Development
Gold Residences

The Outlook Awards 2019 (Lamudi)

Best Affordable Condo
Cheer Residences

Highly Commended Best Developer of the Year (Luzon)
Highly Commended Best Developer of the Year (Vis-Min)
SM Development Corporation (SMDC)

Highly Commended Best Premium Condo of the Year (Luzon)
Hope Residences

2019 Japan International Property Awards

2019 Trailblazer of the Year
SM Development Corporation

2019 Best Luxury High Rise Development
The Estate Makati

RESIDENCES (LEISURE)

Hamilo Coast Recognized Lamudi's 2019 Best Mixed-Use Development in Luzon
Philippine Buyers' Choice Property Awards
The Outlook

HOTELS AND CONVENTION CENTERS

2019 Trip Advisor's Traveler's Choice
Top 25 Luxury Hotels- Philippines
Conrad Manila

International Hotel and Property Awards 2019, Hotel Suite Asia Pacific 2019 Awardee
Conrad Manila Presidential Suite

Marketing and Communications Hotelier of the Year Asia 2019, Stelliers
Angel Velasco, Finalist
Conrad Manila

Sommelier/ Mixologist Hotelier of the Year Asia 2019, Stelliers
Larry Dimapilis, Finalist
Conrad Manila

Human Resources Hotelier of the Year Asia 2019, Stelliers
Au Aceveda
Conrad Manila

World Luxury Spa Awards 2019
Best Luxury Hotel Spa
Conrad Spa Manila

Conde Nast Reader's Choice Awards 2019
Rank 1 among the top 2 Best Hotels in the Philippines
Rank 3 among the top 20 Best Hotels in Asia,
Rank 45 among the 100 Best Hotels in the World
Conrad Manila

Heart of the House Awardee, Mabuhay Award
Carlo Espiritu
Conrad Manila

Hilton Rockstar, Hilton
Ian Bencio David
Conrad Manila

2019 World Luxury Hotel Awards
Luxury Contemporary Hotel, Regional
Conrad Manila

HSMA Virtus Awards
Outstanding Marketing Campaign
Of Art and Wine, Finalist
Conrad Manila

Best Outstanding Sales and Marketing Associate
Ian Bencio David, Winner
Conrad Manila

2019 Top 20 Best Restaurants- Philippine Tatler
China Blue by Jereme Leung
Conrad Manila

Philippine Daily Inquirer Best Dessert 2019
China Blue by Jereme Leung
Brasserie on 3
Conrad Manila

World Luxury Restaurant Awards 2019
Regional Winner, Chinese Cuisine
China Blue by Jereme Leung
Conrad Manila

Country Winner, Luxury Hotel Restaurant
China Blue by Jereme Leung
Conrad Manila

2019 HSMA Virtus Awards
Outstanding Marketing Campaign Winner
Taal Vista Hotel 80th Anniversary

Agoda 2019 Gold Circle Award
Taal Vista Hotel

2nd Cavite Tourism Summit 2019
Award of Excellence for Highest Tourism Arrival
Taal Vista Hotel

Philippine Buyer's Choice Award 2019
No. 1 Premier Business & Leisure Hotel (Tagaytay Awards)
Taal Vista Hotel

2019 Trip Advisor- Certificate of Excellence
Taal Vista Hotel

Expedia – Loved by Guests Award
Pico Sands Hotel

LY – Loved by Guests Award Winner 2019 by Hotels.com
Park Inn by Radisson Davao

Davao Culinary Cup 2019
Plated Desserts Category Bronze - Chef EJ Alair (Pastry Chef)
Park Inn by Radisson Davao

Booking.com
Guest Review Awards 2018
Park Inn by Radisson Clark

TripAdvisor
Certificate of Excellence 2019
Park Inn by Radisson Clark

Hotels.com
Loved by Guests Award
Park Inn by Radisson Clark

Booking.com
Traveller Review Awards 2020
Park Inn by Radisson Clark

Hotels.com
8.9 Loved by Guests
Radisson Blu Cebu

Rakuten Travel, Bronze Award
Radisson Blu Cebu

Holiday Check
5.4 out of 6.0 Guest Rating Award
Radisson Blu Cebu

Sunstar, Best of Cebu
Best City Hotel
Radisson Blu Cebu

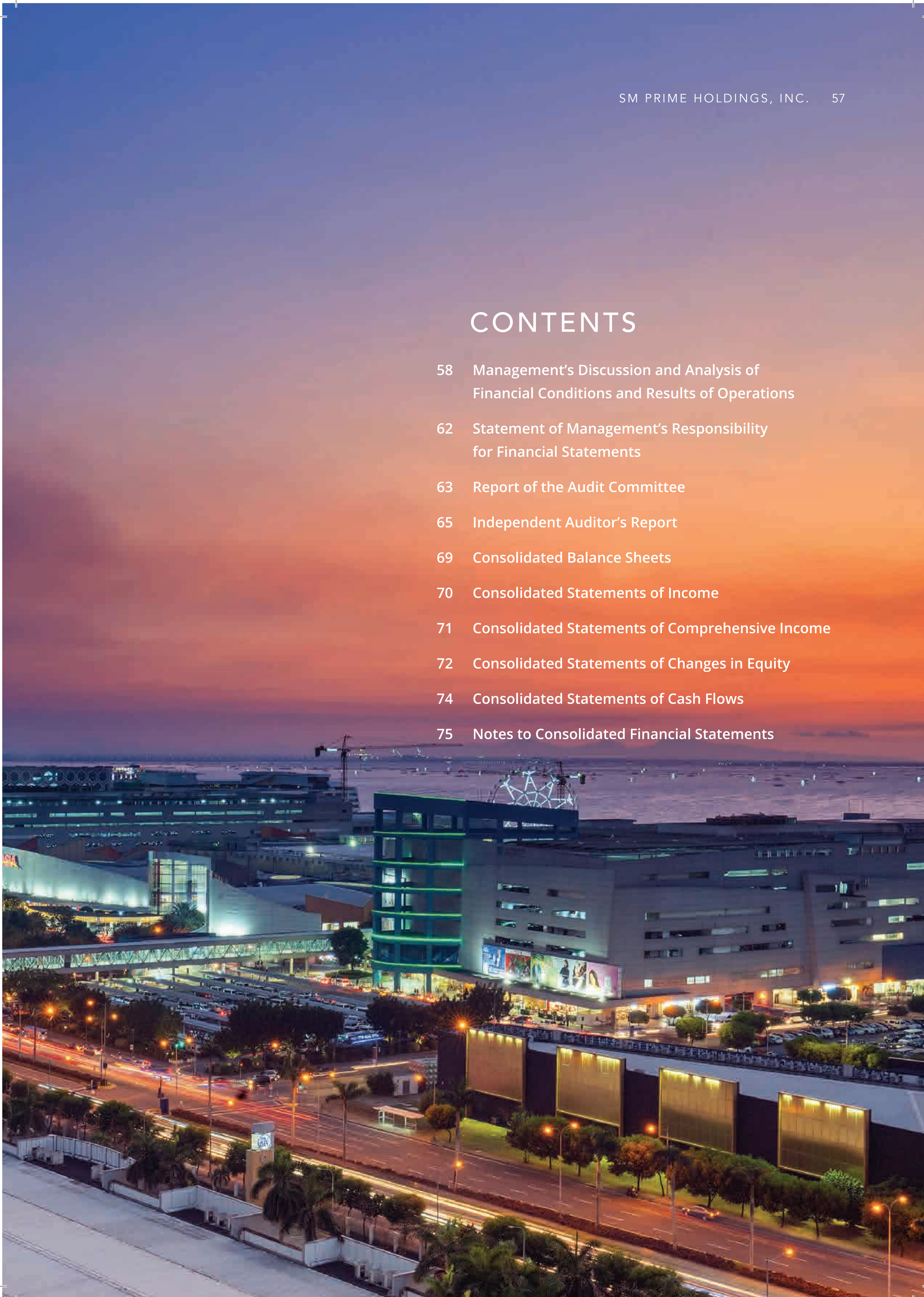
Sunstar, Best of Cebu
Best High Tea Set
Radisson Blu Cebu

Top 25 Best Luxury Hotels in the Philippines - Top 9
Trip Advisor, Travelers' Choice
Radisson Blu Cebu

Top 25 Best Service Hotels in the Philippines - Top 25
Trip Advisor, Travelers' Choice
Radisson Blu Cebu

2019 Philippines Best Restaurants Guide
Philippine Tatler
Feria
Radisson Blu Cebu

Sunstar Best of Cebu
Grand slam Award for Best Buffet – Feria
Radisson Blu Cebu



CONTENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations

SM Prime's Net Income up 18% in 2019 to ₱38.1 billion

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

	Twelve months ended Dec 31				
	2019	**% to Revenues**	**2018**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	118,311	100%	104,081	100%	14%
Costs and expenses	61,619	52%	55,753	54%	11%
Operating Income	56,692	48%	48,327	46%	17%
Net Income	38,086	32%	32,173	31%	18%
EBITDA	66,814	56%	57,244	55%	17%

	Dec 31 2019	**% to Total Assets**	**Dec 31 2018**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	667,280	100%	604,134	100%	10%
Investment Properties	410,640	62%	343,419	57%	20%
Total Debt	237,954	36%	222,811	37%	7%
Net Debt	203,354	30%	184,045	30%	10%
Total Equity	300,916	45%	275,303	46%	9%

	Dec 31	
Financial Ratios	**2019**	**2018**
Debt to Equity	0.44 : 0.56	0.45 : 0.55
Net Debt to Equity	0.40 : 0.60	0.40 : 0.60
Return on Equity	0.13	0.12
Debt to EBITDA	3.56	3.89
Interest Coverage Ratio	7.56	7.59
Operating Income to Revenues	0.48	0.46
EBITDA Margin	0.56	0.55
Net Income to Revenues	0.32	0.31

Revenue

SM Prime recorded consolidated revenues of ₱118.31 billion in 2019, an increase of 14% from ₱104.08 billion in 2018, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱61.76 billion in 2019, an increase of 8% from ₱57.16 billion in 2018. The increase in rental revenue was due to rental rate escalations and expansion of leasable areas. Out of the total rental revenues, 87% is contributed by the malls and the rest from office and hotels and convention centers. Excluding the new malls opened in 2018, same-store rental growth is at 7%. Likewise, office rent increased due to the opening of Three E-Com Center and SM Southmall South Tower in 2018.

Real Estate Sales

SM Prime recorded a 24% increase in real estate sales from ₱35.87 billion in 2018 to ₱44.47 billion in 2019 primarily due to higher construction accomplishments of launched projects, including Cheerful, Green 2, Trees Ph3, Hope, Charm and Bloom and fast take-up of various Ready-For-Occupancy (RFO) projects, particularly those located within the Mall of Asia (MOA) and Makati Central Business District areas, fueled by Overseas Filipinos' remittances, international buyers and rising consumer disposable income. 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 6% to ₱5.55 billion in 2019 from ₱5.22 billion in 2018 due to higher event ticket sales and the 15% increase in international movie sales led by the super blockbuster "Avengers: Endgame", which now holds the title as the highest grossing movie of all time in the Philippines. Other major blockbusters screened in 2019 include "Frozen II", "Hello, Love, Goodbye", "Captain Marvel", and "Aladdin". Major blockbusters screened in 2018 include "Avengers: Infinity War", "The Hows of Us", "Jurassic World: Fallen Kingdom", "Black Panther", and "Aquaman".

Other Revenues

Other revenues increased by 12% to ₱6.54 billion in 2019 from ₱5.83 billion in 2018. The increase was mainly due to higher income from sponsorships and advertising revenues, bowling and ice skating operations, increase in net merchandise sales from snackbars resulting from higher cinema ticket attendance and increase in sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱61.62 billion in 2019, an increase of 11% from ₱55.75 billion in 2018, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 17% to ₱20.79 billion in 2019 from ₱17.77 billion in 2018 primarily due to costs related to higher recognized real estate sales. Gross profit margin on real estate sales improved from 50% in 2018 to 53% in 2019 as a result of improving cost efficiencies, tighter monitoring of construction costs and increase in selling prices of projects particularly, those located in the prime areas of MOA, Manila and Makati.

Operating Expenses

SM Prime's consolidated operating expenses increased by 7% to ₱40.82 billion in 2019 compared to ₱37.98 billion in 2018. Out of the total operating expenses, 72% 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 costs.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 17% to ₱8.83 billion in 2019 compared to ₱7.54 billion in 2018 mainly due to the retail bonds issued in May 2019 and March 2018 amounting to ₱10.0 billion and ₱20.0 billion, respectively, 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 decreased by 5% to ₱1.75 billion in 2019 from ₱1.83 billion in 2018. This account is mainly composed of interest and dividend income received from cash and cash equivalents and equity instruments at fair value through other comprehensive income.

Other charges - net

Other charges – net decreased by 32% to ₱0.44 billion in 2019 from ₱0.65 billion in 2018. This account includes equity in net earnings from associates and joint ventures, forfeited tenants' and customers' deposits, foreign exchange gains and losses and hedging costs related to foreign currency obligations.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 15% to ₱10.37 billion in 2019 from ₱9.06 billion in 2018.

Net income attributable to equity holders of the Parent

SM Prime's consolidated net income attributable to equity holders of the Parent in 2019 increased by 18% to ₱38.09 billion as compared to ₱32.17 billion in 2018.

Balance Sheet Accounts

SM Prime's total assets amounted to ₱667.28 billion as of December 31, 2019, an increase of 10% from ₱604.13 billion as of December 31, 2018.

Cash and cash equivalents decreased by 11% from ₱38.77 billion to ₱34.60 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to payments for capital expenditure projects during the period and debt servicing, net of increase in the Company's cash flows from operations and proceeds from the issuance of bonds in May 2019 amounting to ₱10.0 billion.

Receivables and contract assets increased by 52% from ₱35.23 billion to ₱53.64 billion as of December 31, 2018 and December 31, 2019, respectively, due to high take-up of residential projects.

Real estate inventories increased by 17% from ₱37.58 billion to ₱43.95 billion as of December 31, 2018 and December 31, 2019, respectively, due to construction accomplishments for the period, net of cost of sold units.

Prepaid expenses and other current assets increased by 29% from ₱15.15 billion to ₱19.49 billion as of December 31, 2018 and December 31, 2019, respectively, due to deposits and advances to contractors related to construction projects and various prepayments.

Equity instruments at fair value through other comprehensive income decreased by 10% from ₱23.53 billion to ₱21.08 billion as of December 31, 2018 and December 31, 2019, respectively, due to sale of shares during the year, net of changes in fair values under this portfolio.

Investment properties increased by 20% from ₱343.42 billion to ₱410.64 billion as of December 31, 2018 and December 31, 2019, respectively, primarily due to ongoing new mall projects, redevelopment of SM Mall of Asia and other existing malls and commercial building construction. Also, the increase is attributable to landbanking and adoption of PFRS 16 Leases. In 2019, the Company adopted PFRS 16 using the modified retrospective approach with the date of initial application of January 1, 2019 which resulted to the recognition of right-of-use assets amounting to ₱21.66 billion as of December 31, 2019.

Deferred tax assets decreased by 17% from ₱1.08 billion to₱0.90 billion as of December 31, 2018 and 2019, respectively. Deferred tax liabilities increased by 18% from ₱3.53 billion to ₱4.18 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes.

Other noncurrent assets decreased by 34% from ₱80.91 billion to ₱53.56 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to subsequent reclassification of deposits for land to land held for future development under investment properties account.

Loans payable increased from ₱0.04 billion to ₱0.10 billion as of December 31, 2018 and December 31, 2019, respectively, due to availment of loans.

Accounts payable and other current liabilities increased by 14% from ₱61.77 billion to ₱70.13 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to payables to contractors and suppliers related to ongoing projects and customers' deposits.

Long-term debt increased by 7% from ₱222.77 billion to ₱237.85 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to the issuance of ₱10.00 billion retail bonds in May 2019 and new loan availments to fund capital expenditures requirements, net of payment of maturing loans.

Tenants' and customers' deposits increased by 16% from ₱18.68 billion to ₱21.65 billion as of December 31, 2018 and December 31, 2019, respectively, mainly due to the new malls and office buildings and increase in customers' deposits from residential buyers.

Liability for purchased land decreased by 30% from ₱6.04 billion to ₱4.21 billion as of December 31, 2018 and December 31, 2019, respectively, due to subsequent payments.

Derivative liabilities increased from ₱0.34 billion to ₱0.71 billion as of December 31, 2018 and December 31, 2019, respectively, mainly resulting from the net fair value changes on the cross currency swap transactions entered into in 2018.

Other noncurrent liabilities increased from ₱10.51 billion to ₱24.42 billion as of December 31, 2018 and December 31, 2019, respectively, due to adoption of PFRS 16 which resulted to the recognition of lease liabilities amounting to ₱11.15 billion as of December 31, 2019.

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 decreased to 0.44:0.56 as of December 31, 2019 from 0.45:0.55 as of December 31, 2018. Net interest-bearing debt to equity is steady at 0.40:0.60 as of December 31, 2019 and December 31, 2018, respectively.

ROE increased to 13% as of December 31, 2019 from 12% as of December 31, 2018.

Debt to EBITDA improved to 3.56:1 as of December 31, 2019 from 3.89:1 as of December 31, 2018 due to increase in consolidated operating income. Interest coverage ratio decreased to 7.56:1 as of December 31, 2019 from 7.59:1 as of December 31, 2018 and is attributed to interest expense from additional borrowings. EBITDA margin improved to 56% as of December 31, 2019 from 55% as of December 31, 2018.

Consolidated operating income to revenues improved to 48% as of December 31, 2019 from 46% as of December 31, 2018. Consolidated net income to revenues likewise improved to 32% as of December 31, 2019 from 31% as of December 31, 2018.

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, 2019 and 2018, 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 2020, the Company expects to incur capital expenditures of around ₱80 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has seventy-four shopping malls in the Philippines with 8.5 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area. For 2020, SM Prime is slated to open five new malls in the Philippines. By the end of 2020, the malls business unit will have seventy-nine malls in the Philippines and seven malls in China with an estimated combined gross floor area of 10.2 million square meters.

SM Prime currently has forty-nine residential projects, thirty-nine of which are in Metro Manila and ten are outside Metro Manila. For 2020, SM Prime is scheduled to launch between 15,000 to 20,000 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 twelve office buildings with a combined gross floor area of 695,000 square meters. NU Mall of Asia (NUMA) and Three E-Com Center were completed in September 2019 and September 2018, respectively. SM Prime is set to launch Four E-Com Center located in MOA Complex within 2020.

SM Prime's hotels and convention centers business unit currently has a portfolio of four convention centers, three trade halls and eight hotels with over 1,900 rooms. This includes Park Inn by Radisson Iloilo and Park Inn by Radisson North EDSA which opened in April 2019 and September 2019, respectively. For 2020, SM Prime is set to expand Park Inn by Radisson Clark and open Park Inn by Radisson Bacolod to add 251 rooms in its portfolio.

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

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

Henry T. Sy, Jr.
Chairman

Jeffrey C. Lim
President

John Nai Peng C. Ong
Chief Finance Officer

Signed this 17th of February, 2020

Report of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity and adequacy of the financial reporting process, the internal control system, the audit process, and compliance with pertinent laws, rules and regulations. The Committee likewise oversees special investigations as may be necessary and review its respective Charter annually.

In compliance with the Audit Charter, the Manual on Corporate Governance and pertinent laws, rules and regulations, we confirm that:

- The Audit Committee is composed of four (4) members, namely, independent directors Mr. Joselito H. Sibayan and Mr. Gregorio U. Kilayko, and non-executive director Mr. Jorge T. Mendiola, and Committee Chairman, Mr. Jose L. Cuisia, Jr., who is also an independent director.
- We met four (4) times in 2019 on the following dates: February 11, May 6, July 15 and November 4. All meetings registered 100% attendance of all members.
- Each member of the committee possesses adequate knowledge and competence in Finance and Accounting processes;
- Profile/Qualifications of the Members of Audit Committee:

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

  MR. JOSELITO H. SIBAYAN (Member, Independent Director) - Mr. Joselito H. Sibayan has been an Independent Director of the Company since 2011. He has spent the past 32 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration from University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the

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

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

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

- We have reviewed and approved the following with regard to our independent auditor, SGV & Co., and our Internal Auditor:
    - Their respective audit plans, scope, risk-based methods and timetables;
    - Their assessment of internal controls, including controls over financial reporting; and
    - The results of their examinations and Management's action plans to address pending audit issues;
- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles and relevant pending tax legislations, which could impact SM Prime;
- We have reviewed and approved the results of all audit services provided by SGV & Co. and related audit fees;
- We have met independently with SGV & Co. to ensure that proper checks and balances are in place within the corporation.
- We have reviewed the internal control system of the Company based on the assessments completed and reported by internal and external auditors and found that the system is adequate and effective;
- We have discussed with SGV & Co. matters required to be discussed by prevailing applicable Philippine Auditing Standards, received written disclosures and the management letter from SGV & Co., as required by prevailing applicable Independence Standards, and discussed with SGV & Co. its independence;
- We have reviewed the financial statements of SM Prime Holdings, Inc. for the first quarter ended March 31, 2019, second quarter ended June 30, 2019, and third quarter ended September 30, 2019;
- After thorough review and discussion, and subject to the limitations on the Committee's roles and responsibilities, we recommended for Board approval, and the Board approved, the audited financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2019.
- We have reviewed and discussed the performance, independence and qualifications of the independent auditor, SGV & Co., in the conduct of its audit of the financial statements of SM Prime Holdings, Inc. for the year 2019. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2020.

JOSE L. CUISA, JR.
Chairman

JOSELITO H. SIBAYAN Member	GREGORIO U. KILAYKO Member	JORGE T.MENDIOLA Member

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, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the 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 16, Leases

Effective January 1, 2019, the Company adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Company's accounting policy for leases. The Company's adoption of PFRS 16 is significant to our audit because the Company has a high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Company is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱19,626 million and ₱11,274 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱552 million and ₱317 million, respectively, for the year ended December 31, 2019.

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

Audit Response

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

We tested the population of lease agreements by tracing the lease agreements to the schedule of lease contracts of the Company.

On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements in 2019), identified their contractual terms and conditions to the lease calculations prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

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

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

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

Real Estate Revenue Recognition

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

The 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 (or buyer's equity) in relation to the total contract price. 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 Company's real estate revenue recognition 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.

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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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. 8125324, January 7, 2020, Makati City

February 24, 2020

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 20, 27 and 28)	**₱34,599,959**	₱38,766,467
Receivables and contract assets (Notes 8, 15, 20, 27 and 28)	**53,636,921**	35,229,450
Real estate inventories (Note 9)	**43,946,109**	37,575,103
Equity instruments at fair value through other comprehensive income (Notes 10, 20, 27 and 28)	**659,077**	639,316
Derivative assets (Notes 27 and 28)	**–**	432,898
Prepaid expenses and other current assets (Notes 11, 20, 27 and 28)	**19,485,542**	15,147,029
Total Current Assets	**152,327,608**	127,790,263
Noncurrent Assets		
Equity instruments at fair value through other comprehensive income - net of current portion (Notes 10, 20, 27 and 28)	**20,420,959**	22,892,937
Property and equipment - net (Notes 12 and 26)	**1,383,320**	1,419,111
Investment properties - net (Notes 13, 18 and 26)	**410,639,578**	343,418,862
Investments in associates and joint ventures (Note 14)	**27,214,398**	26,199,380
Deferred tax assets - net (Note 25)	**903,845**	1,083,670
Derivative assets - net of current portion (Notes 27 and 28)	**826,315**	420,035
Other noncurrent assets (Notes 15, 20, 24, 27 and 28)	**53,563,651**	80,910,060
Total Noncurrent Assets	**514,952,066**	476,344,055
	₱667,279,674	₱604,134,318
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 16, 20, 27 and 28)	**₱100,000**	₱39,400
Accounts payable and other current liabilities (Notes 17, 20, 27 and 28)	**70,125,750**	61,767,086
Current portion of long-term debt (Notes 18, 20, 27 and 28)	**23,521,373**	25,089,624
Income tax payable	**1,509,657**	1,383,742
Total Current Liabilities	**95,256,780**	88,279,852
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18, 20, 27 and 28)	**214,333,050**	197,682,262
Tenants' and customers' deposits - net of current portion (Notes 17, 26, 27 and 28)	**21,646,217**	18,676,022
Liability for purchased land - net of current portion (Notes 17, 27 and 28)	**4,214,234**	6,044,220
Deferred tax liabilities - net (Note 25)	**4,179,154**	3,527,501
Derivative liabilities (Notes 27 and 28)	**711,617**	335,008
Other noncurrent liabilities (Notes 15, 17, 24, 27 and 28)	**24,422,348**	10,511,491
Total Noncurrent Liabilities	**269,506,620**	236,776,504
Total Liabilities	**₱364,763,400**	₱325,056,356
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 19 and 29)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 5 and 19)	**38,007,668**	39,953,218
Cumulative translation adjustment	**1,344,274**	1,955,999
Net fair value changes of equity instruments at fair value through other comprehensive income (Note 10)	**17,840,990**	19,084,597
Net fair value changes on cash flow hedges (Note 28)	**(1,328,167)**	(842,098)
Remeasurement loss on defined benefit obligation (Note 24)	**(913,390)**	(348,480)
Retained earnings (Note 19):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**173,583,191**	143,118,153
Treasury stock (Notes 19 and 29)	**(2,984,695)**	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	**300,916,171**	275,302,994
Non-controlling Interests (Note 19)	**1,600,103**	3,774,968
Total Equity	**302,516,274**	279,077,962
	₱667,279,674	₱604,134,318

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		
	2019	2018	2017
REVENUE			
Rent (Notes 13, 20, and 26)	**₱61,759,921**	₱57,162,796	₱51,406,294
Sales:			
Real estate	**44,465,454**	35,872,552	29,434,050
Cinema and event ticket	**5,548,469**	5,218,434	4,767,364
Others (Notes 20 and 21)	**6,537,646**	5,826,783	5,314,142
	118,311,490	104,080,565	90,921,850
COSTS AND EXPENSES (Note 22)	**61,619,162**	55,753,334	50,293,058
INCOME FROM OPERATIONS	**56,692,328**	48,327,231	40,628,792
OTHER INCOME (CHARGES)			
Interest expense (Notes 20, 23, 27 and 28)	**(8,832,770)**	(7,540,045)	(5,474,422)
Interest and dividend income (Notes 7, 10, 20 and 23)	**1,746,406**	1,828,776	1,214,347
Others - net (Notes 7, 14, 17, 18, 20 and 28)	**(443,970)**	(649,787)	(420,856)
	(7,530,334)	(6,361,056)	(4,680,931)
INCOME BEFORE INCOME TAX	**49,161,994**	41,966,175	35,947,861
PROVISION FOR INCOME TAX (Note 25)			
Current	**9,282,069**	8,534,428	7,531,782
Deferred	**1,091,252**	520,618	291,616
	10,373,321	9,055,046	7,823,398
NET INCOME	**₱38,788,673**	₱32,911,129	₱28,124,463
Attributable to:			
Equity holders of the Parent (Notes 19 and 29)	**₱38,085,601**	₱32,172,886	₱27,573,866
Non-controlling interests (Note 19)	**703,072**	738,243	550,597
	₱38,788,673	₱32,911,129	₱28,124,463
Basic/Diluted earnings per share (Note 29)	**₱1.320**	₱1.115	₱0.956

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		
	2019	2018	2017
NET INCOME	**₱38,788,673**	₱32,911,129	₱28,124,463
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) due to changes in fair value of financial assets at fair value through other comprehensive income (Note 10)	**1,635,574**	(5,287,209)	7,987,295
Remeasurement loss on defined benefit obligation (Note 24)	**(567,868)**	(152,405)	(244,103)
	1,067,706	(5,439,614)	7,743,192
Items that may be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment	**(611,725)**	(154,746)	710,372
Net fair value changes on cash flow hedges (Note 28)	**(486,069)**	(530,669)	(1,123,054)
	(30,088)	(6,125,029)	7,330,510
TOTAL COMPREHENSIVE INCOME	**₱38,758,585**	₱26,786,100	₱35,454,973
Attributable to:			
Equity holders of the Parent (Notes 19 and 29)	**₱38,058,471**	₱26,050,908	₱34,906,622
Non-controlling interests (Note 19)	**700,114**	735,192	548,351
	₱38,758,585	₱26,786,100	₱35,454,973

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, 2019, 2018 And 2017
(Amounts In Thousands)

	Equity Attributable to			
	Capital Stock (Notes 19 and 29)	**Additional Paid-in Capital - Net** (Notes 5 and 19)	**Cumulative Translation Adjustment**	**Net Fair Value Changes of Equity Instruments at Fair Value Through Other Comprehensive Income** (Note 10)
At January 1, 2019	**₱33,166,300**	**₱39,953,218**	**₱1,955,999**	**₱19,084,597**
Net income for the year	**–**	**–**	**–**	**–**
Transfer of realized gain on equity instruments at fair value through other comprehensive income (Note 10)	**–**	**–**	**–**	**(2,879,181)**
Other comprehensive income (loss)	**–**	**–**	**(611,725)**	**1,635,574**
Total comprehensive income (loss) for the year	**–**	**–**	**(611,725)**	**(1,243,607)**
Cash dividends (Note 19)	**–**	**–**	**–**	**–**
Cash dividends received by a subsidiary	**–**	**–**	**–**	**–**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**
Acquisition of non-controlling interest - net (Notes 2 and 5)	**–**	**(1,945,550)**	**–**	**–**
At December 31, 2019	**₱33,166,300**	**₱38,007,668**	**₱1,344,274**	**₱17,840,990**
At January 1, 2018	₱33,166,300	₱39,662,168	₱2,110,745	₱25,489,705
Net income for the year	–	–	–	–
Transfer of realized gain on equity instruments at fair value through other comprehensive income (Note 10)	–	–	–	(1,117,899)
Other comprehensive income (loss)	–	–	(154,746)	(5,287,209)
Total comprehensive income (loss) for the year	–	–	(154,746)	(6,405,108)
Cash dividends (Note 19)	–	–	–	–
Cash dividends received by a subsidiary	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Sale of treasury shares held by subsidiary	–	282,816	–	–
Sale (acquisition) of non-controlling interests (Notes 2 and 5)	–	8,234	–	–
At December 31, 2018	₱33,166,300	₱39,953,218	₱1,955,999	₱19,084,597
At January 1, 2017, as previously reported	₱33,166,300	₱39,545,625	₱1,400,373	₱17,502,410
Effect of common control business combination (Note 5)	–	–	–	–
At January 1, 2017, as adjusted	33,166,300	39,545,625	1,400,373	17,502,410
Net income for the year	–	–	–	–
Other comprehensive income (loss)	–	–	710,372	7,987,295
Total comprehensive income (loss) for the year	–	–	710,372	7,987,295
Cash dividends (Note 19)	–	–	–	–
Cash dividends received by a subsidiary	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Sale of treasury shares held by subsidiary	–	89,929	–	–
Acquisition of subsidiary (Note 13)	–	–	–	–
Sale (acquisition) of non-controlling interests (Notes 2 and 5)	–	26,614	–	–
At December 31, 2017	₱33,166,300	₱39,662,168	₱2,110,745	₱25,489,705

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent							
Net Fair Value Changes on Cash Flow Hedges (Note 28)	**Remeasurement Loss on Defined Benefit Obligation** (Note 24)	**Retained Earnings** (Note 19) **Appropriated**	**Unappropriated**	**Treasury Stock** (Notes 19 and 29)	**Total**	**Non-controlling Interests** (Note 19)	**Equity Total**
(₱842,098)	**(₱348,480)**	**₱42,200,000**	**₱143,118,153**	**(₱2,984,695)**	**₱275,302,994**	**₱3,774,968**	**₱279,077,962**
–	**–**	**–**	**38,085,601**	**–**	**38,085,601**	**703,072**	**38,788,673**
–	**–**	**–**	**2,879,181**	**–**	**–**	**–**	**–**
(486,069)	**(564,910)**	**–**	**–**	**–**	**(27,130)**	**(2,958)**	**(30,088)**
(486,069)	**(564,910)**	**–**	**40,964,782**	**–**	**38,058,471**	**700,114**	**38,758,585**
–	**–**	**–**	**(10,507,731)**	**–**	**(10,507,731)**	**–**	**(10,507,731)**
–	**–**	**–**	**7,987**	**–**	**7,987**	**–**	**7,987**
–	**–**	**–**	**–**	**–**	**–**	**(633,700)**	**(633,700)**
–	**–**	**–**	**–**	**–**	**(1,945,550)**	**(2,241,279)**	**(4,186,829)**
(₱1,328,167)	**(₱913,390)**	**₱42,200,000**	**₱173,583,191**	**(₱2,984,695)**	**₱300,916,171**	**₱1,600,103**	**₱302,516,274**
(₱311,429)	(₱199,126)	₱42,200,000	₱120,125,945	(₱3,287,087)	₱258,957,221	₱3,916,693	₱262,873,914
–	–	–	32,172,886	–	32,172,886	738,243	32,911,129
–	–	–	1,117,899	–	–	–	–
(530,669)	(149,354)	–	–	–	(6,121,978)	(3,051)	(6,125,029)
(530,669)	(149,354)	–	33,290,785	–	26,050,908	735,192	26,786,100
–	–	–	(10,307,731)	–	(10,307,731)	–	(10,307,731)
–	–	–	9,154	–	9,154	–	9,154
–	–	–	–	–	–	(576,200)	(576,200)
–	–	–	–	302,392	585,208	–	585,208
–	–	–	–	–	8,234	(300,717)	(292,483)
(₱842,098)	(₱348,480)	₱42,200,000	₱143,118,153	(₱2,984,695)	₱275,302,994	₱3,774,968	₱279,077,962
₱811,625	₱39,687	₱42,200,000	₱100,170,486	(₱3,355,474)	₱231,481,032	₱3,882,512	₱235,363,544
–	(3,046)	–	–	–	(3,046)	(585)	(3,631)
811,625	36,641	42,200,000	100,170,486	(3,355,474)	231,477,986	3,881,927	235,359,913
–	–	–	27,573,866	–	27,573,866	550,597	28,124,463
(1,123,054)	(241,857)	–	–	–	7,332,756	(2,246)	7,330,510
(1,123,054)	(241,857)	–	27,573,866	–	34,906,622	548,351	35,454,973
–	–	–	(7,708,600)	–	(7,708,600)	–	(7,708,600)
–	–	–	11,862	–	11,862	–	11,862
–	–	–	–	–	–	(580,791)	(580,791)
–	–	–	–	68,387	158,316	–	158,316
–	–	–	–	–	–	327,729	327,729
–	6,090	–	78,331	–	111,035	(260,523)	(149,488)
(₱311,429)	(₱199,126)	₱42,200,000	₱120,125,945	(₱3,287,087)	₱258,957,221	₱3,916,693	₱262,873,914

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements Of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱49,161,994**	₱41,966,175	₱35,947,861
Adjustments for:			
Depreciation and amortization (Notes 22 and 26)	**10,825,078**	9,655,426	8,959,170
Interest expense (Note 23)	**8,832,770**	7,540,045	5,474,422
Interest and dividend income (Notes 7, 10 and 23)	**(1,746,406)**	(1,828,776)	(1,214,347)
Equity in net earnings of associates and joint ventures (Note 14)	**(1,492,093)**	(1,297,528)	(1,106,816)
Loss (gain) on:			
Unrealized foreign exchange and fair value changes on derivatives - net	**209,624**	557,067	(26,266)
Mark-to-market and disposal of investments held for trading	**–**	–	23,786
Operating income before working capital changes	**65,790,967**	56,592,409	48,057,810
Decrease (increase) in:			
Receivables and contract assets	**(17,302,352)**	(11,618,774)	(6,715,156)
Real estate inventories	**(1,514,160)**	(2,124,966)	1,779,568
Prepaid expenses and other current assets	**(4,368,606)**	(557,890)	(2,368,411)
Increase in:			
Accounts payable and other liabilities	**15,222,583**	9,552,450	11,154,924
Tenants' and customers' deposits	**3,045,680**	2,306,209	1,476,602
Cash generated from operations	**60,874,112**	54,149,438	53,385,337
Income tax paid	**(9,146,530)**	(8,185,024)	(7,607,930)
Net cash provided by operating activities	**51,727,582**	45,964,414	45,777,407
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Equity instruments and financial assets at FVOCI	**4,100,955**	3,023,585	–
Investments held for trading	**–**	–	286,500
Interest received	**1,438,318**	1,417,478	823,686
Dividends received	**615,349**	577,014	603,011
Additions to:			
Investment properties (Note 13)	**(51,267,038)**	(40,351,989)	(42,678,441)
Property and equipment - net (Note 12)	**(136,560)**	(126,355)	(132,262)
Equity instruments at FVOCI (Note 10)	**(4)**	(5,826)	(1,906,125)
Investments held for trading	**–**	–	(122,660)
Investments in associates and joint ventures and acquisition of a subsidiary - net of cash acquired (Note 14)	**15,867**	(509,282)	(775,500)
Decrease (increase) in bonds and deposits and other noncurrent assets (Note 15)	**(3,382,131)**	(28,102,681)	2,889,806
Net cash used in investing activities	**(48,615,244)**	(64,078,056)	(41,011,985)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans and long-term debt (Notes 16 and 18)	**₱42,393,638**	₱54,115,835	₱41,997,671
Payments of:			
Long-term debt (Note 18)	**(25,466,777)**	(26,737,233)	(9,811,140)
Dividends (Note 19)	**(11,133,444)**	(10,874,777)	(8,277,529)
Interest	**(8,712,493)**	(7,193,222)	(5,156,332)
Bank loans (Note 16)	**(519,400)**	(475,000)	(4,735,000)
Lease liabilities (Notes 3, 17, and 26)	**(80,437)**	–	–
Acquisition of non-controlling interest - net (Note 5)	**(4,186,829)**	–	–
Proceeds from:			
Maturity of derivatives	**395,722**	3,212,542	–
Reissuance of treasury shares (Note 19)	–	585,207	158,316
Net cash provided by (used in) financing activities	**(7,310,020)**	12,633,352	14,175,986
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**31,174**	(124,777)	229,144
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,166,508)**	(5,605,067)	19,170,552
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**38,766,467**	44,371,534	25,200,982
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱34,599,959**	₱38,766,467	₱44,371,534

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Corporate Information

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

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

As at December 31, 2019, SMPH is 49.70% and 25.85% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 24, 2020.

2. Basis of Preparation

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

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018 , Memorandum Circular No. 3, Series of 2019, and Memorandum Circular No. 4, Series of 2020.

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

		Percentage of Ownership	
Company	**Country of Incorporation**	**2019**	**2018**
Mall			
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 (PMI)	- do -	100.0	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 -	100.0	91.3
Supermalls Transport Services, Inc.*	- do -	100.0	51.0
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
Premier Clark Complex, Inc.	- do -	100.0	–
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	100.0	100.0

**Accounted as investment in joint venture in 2018*

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 ₱61,760 million, ₱57,163 million and ₱51,406 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 26).

Before January 1, 2019

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 and ₱1,598 million for the years ended December 31, 2018 and 2017, respectively (see Note 22).

On or after January 1, 2019

Determining the Lease Term of Contract. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate its lease contracts with extension and/or termination options. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. The Company typically exercises its option to renew its leases of various parcels of land since its lease term periods are generally covered by an automatic renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates. Upon adoption of the Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgment in identifying uncertainties over its income tax treatments. The Company determined based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including for its subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have any significant impact on the consolidated financial statements of the Company.

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 ₱44,465 million, ₱35,873 million and ₱29,434 million for the years ended December 31, 2019, 2018 and 2017, respectively, while the cost of real estate sold amounted to ₱20,794 million, ₱17,769 million and ₱15,152 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 22).

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 vintage approach for receivable from sale of real estate (billed and unbilled) 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 ₱1,054 million and ₱1,034 million as at December 31, 2019 and December 31, 2018, respectively (see Note 8).

Net Realizable Value of Real Estate Inventories. The Company writes down the carrying value of real estate inventories 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 real estate inventories amounted to ₱43,946 million and ₱37,575 million as at December 31, 2019 and 2018, respectively (see Note 9).

Estimated Useful Lives of Property and Equipment and Investment Properties (except for Right-of-use Asset). The useful life of each of the Company's property and equipment and investment properties, excluding right-of-use asset (ROUA), 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, excluding ROUA, would increase the recorded costs and expenses and decrease noncurrent assets.

The aggregate carrying values of property and equipment and investment properties, excluding ROUA, amounted to ₱390,356 million and ₱344,838 million as at December 31, 2019 and 2018, respectively (see Notes 12 and 13).

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 and other noncurrent assets (excluding time deposits) may be impaired. Determining the value in use of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the consolidated financial position and performance.

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

The aggregate carrying values of investments in associates and joint ventures, property and equipment, investment properties and other noncurrent assets (excluding time deposits) amounted to ₱490,388 million and ₱449,555 million as at December 31, 2019 and 2018, respectively (see Notes 12, 13, 14 and 15).

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 ₱904 million and ₱1,084 million as at December 31, 2019 and 2018, respectively (see Note 25).

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 13 and 28.

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.

On or after January 1, 2019

Estimating Incremental Borrowing Rate for Leases. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain the asset of similar value in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using the available market interest rates adjusted with the Company's credit rating.

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, 2019. 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, 2019

- 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 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.

  The Company applied PFRS 16 using modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application on January 1, 2019. The Company also elected to use the recognition exemptions for low-value assets and short-term leases.

  The Company has various lease contracts, as lessee, for parcels of land and office spaces which were accounted for as operating leases under PAS 17. Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all these leases.

  Set out below are the effects of initial adoption of PFRS 16:

  - The Company recognized ROUA amounting to ₱19,626 million, including land use rights of ₱9,976 million previously presented as part of "Other noncurrent assets". These were presented under "Investment properties" and "Property and equipment - net" accounts in the consolidated balance sheet as at January 1, 2019. Moreover, accrued rent pertaining to land leases previously accounted for as operating leases under PAS 17 amounting to ₱1,772 million as of December 31, 2018 was adjusted to ROUA as at January 1, 2019.
  - The Company recognized lease liabilities amounting to ₱11,294 million. These were presented as part of "Accounts payable and other current liabilities" and "Other noncurrent liabilities" in the consolidated balance sheet as at January 1, 2019.
  - As at January 1, 2019, deferred tax assets - net increased by ₱297 million as a result of recognizing the deferred tax impact of the changes in assets and liabilities.

  As at December 31, 2018, the undiscounted operating lease commitments amounted to ₱31,069 million. Upon adoption of PFRS 16, this amount was discounted using incremental borrowing rate of 4.95% to 7.86% resulting to recognized lease liabilities of ₱11,264 million (net of discounted lease commitments related to low-value assets) at January 1, 2019. The transition adjustments related to PFRS 16 are considered noncash transactions in the consolidated statement of cash flows for the year ended December 31, 2019.

- 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

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

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

- 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.

- 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.

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.

- 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 permitted.

- 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.

Effective beginning on or after January 1, 2020

- 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 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. These amendments will apply on future business combinations of the Company.

- 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 judgments.

  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.

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

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

- *Philippine Interpretations Committee (PIC) updates on PFRS 15 implementation Issues*. On August 27, 2019, the Company, together with the real estate industry, sent a Position Paper to the PIC requesting the latter to revisit its position on certain issues relating to the adoption of PFRS 15 and some other industry issues. In line with this, the PIC issued two response letters to the Industry dated September 13 and 27, 2019. While the PIC finalizes its position on the matters raised by the Industry, PIC has provided the following options for accounting treatment or financial statement presentation on the following:

  - Conclusion of PIC Q&A No. 2018-12D Step 3, *Determining the Transaction Price for the Contract*, temporarily allows the recording for the difference between the consideration received from the customers and the transferred goods or services to the customer as either contract asset, with disclosure required under PFRS 15 being complied, or as installment contracts receivables with disclosure requirements under PFRS 9 being followed. The Company retained its accounting policy of presenting the difference between the consideration received and transferred goods or services as contract asset with disclosure requirements under PFRS 15 being complied with.
  - Conclusion of PIC Q&A No. 2018-12H, *Accounting for Common Usage Service Area (CUSA)*, recommends the industry to consider an alternative presentation wherein CUSA may be presented outside of topline revenues if these are not considered as main source of revenue and are not material.

- *March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs)*. In March 2019, the IFRIC issued update summarizing the decisions reached in its public meetings. The March 2019 IFRIC update includes Agenda Decision on the capitalization of borrowing cost on over time transfer of constructed goods. The IFRIC Agenda Decision clarified whether borrowing costs may be capitalized in relation to the construction of a residential multi-unit real estate development (building) which are sold to customers prior to start of construction or completion of the development.

Applying paragraph 8 of PAS 23, *Borrowing Cost*, an entity capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 5 of PAS 23 defines a qualifying asset as 'an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'. The March 2019 IFRIC Update clarified that the related assets that might be recognized in the real estate company's financial statements (i.e., installment contract receivable, contract asset, or inventory) will not qualify as a qualifying asset and the corresponding borrowing cost may no longer be capitalized.

On February 21, 2020, the Philippine SEC decided to provide relief to the real estate industry by deferring the implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, the real estate industry will adopt the IFRIC Interpretations and any subsequent amendments thereto retrospectively or as the Philippine SEC prescribed.

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 ₱2,413 million and ₱2,393 million as at December 31, 2019 and 2018, respectively (see Note 28).

- *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.

- *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 ₱826 million and ₱853 million as at December 31, 2019 and 2018, respectively (see Note 28).

  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 ₱21,080 million and ₱23,532 million as at December 31, 2019 and 2018, respectively (see Note 28).

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, vintage approach for receivables from sale of real estate (billed and unbilled) and general approach 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.

- *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).

- *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.

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 ₱712 million and ₱335 million as at December 31, 2019 and 2018, respectively (see Note 28).

- *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 ₱258,681 million and ₱228,983 million as at December 31, 2019 and 2018, respectively (see Note 28).

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.

Real Estate Inventories
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. Real estate inventories 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
- 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 and deposits to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, cash in escrow, prepayments, supplies and inventories and others. Advances and deposits to suppliers and 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.

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
The Company's property and equipment consist of land, building, equipment and ROUA. 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
ROUA – Office spaces	10–25 year or term of the lease whichever is shorter

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

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

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

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

Investment Properties

These accounts consist of commercial spaces/properties held for rental and/or capital appreciation, ROUA and land held for future development. These accounts are measured initially at cost. The cost of a purchased investment property 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 the lease whichever is shorter
ROUA – land	Remaining lease term

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 follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the 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. Prior to January 1, 2019, 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 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 judgments, 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. On February 14, 2018, the 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 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.

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.

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 and, permits and licenses. 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. 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 real estate inventories).

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

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

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

Cost of real estate sold. Cost of real estate sold is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works. The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affects cost of real estate sold and gross profit are recognized in the year in which changes are determined.

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

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

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

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

Foreign Currency Translation
The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at reporting periodand 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 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.

Effective beginning on or after January 1, 2019

Company as Lessee. The Company applies a single recognition and measurement approach for all the leases except for low-value assets and short-term leases. The Company recognizes lease liabilities to make lease payments and ROUA representing the right to use the underlying asset.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments which includes in substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is adjusted to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company also recognized ROUA in property and equipment (office spaces) and investment properties (land lease and land use rights). Prior to that date, all of the Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated balance sheet. The Company recognizes ROUA at the commencement date of the lease (i.e., the date the underlying asset is available for use). The initial cost of ROUA includes the amount of lease liabilities recognized less any lease payments made at or before the commencement date.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of bridgeway, machineries and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Company recognizes deferred tax asset and liability based from the lease liability and ROUA, respectively, on a gross basis, as of balance sheet date.

Effective before January 1, 2019

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.

<u>Provisions</u>
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.

<u>Borrowing Costs</u>
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 or sale. 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.

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

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

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

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

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

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

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

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

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

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

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

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

Events after the Reporting Period

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

4. Segment Information

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

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

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

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

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

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

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

Business Segment Data

	2019					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱63,540,287**	**₱45,213,765**	**₱4,510,820**	**₱5,046,618**	**₱–**	**₱118,311,490**
Inter-segment	**85,072**	**–**	**74,100**	**13,662**	**(172,834)**	**–**
	₱63,625,359	**₱45,213,765**	**₱4,584,920**	**₱5,060,280**	**(₱172,834)**	**₱118,311,490**
Segment results:						
Income before income tax	**₱30,418,637**	**₱15,020,332**	**₱3,661,683**	**₱1,074,405**	**(₱1,013,063)**	**₱49,161,994**
Provision for income tax	**(7,020,933)**	**(2,428,262)**	**(658,358)**	**(265,768)**	**–**	**(10,373,321)**
Net income	**₱23,397,704**	**₱12,592,070**	**₱3,003,325**	**₱808,637**	**(₱1,013,063)**	**₱38,788,673**
Net income attributable to:						
Equity holders of the Parent	**₱22,701,115**	**₱12,585,587**	**₱3,003,325**	**₱808,637**	**(₱1,013,063)**	**₱38,085,601**
Non-controlling interests	**696,589**	**6,483**	**–**	**–**	**–**	**703,072**
Segment assets	**₱388,653,151**	**₱217,788,016**	**₱51,340,770**	**₱13,573,854**	**(₱4,076,117)**	**₱667,279,674**
Segment liabilities	**₱237,486,362**	**₱124,277,871**	**₱5,982,687**	**₱1,092,597**	**(₱4,076,117)**	**₱364,763,400**
Other information:						
Capital expenditures	**₱29,283,828**	**₱27,578,564**	**₱10,216,823**	**₱1,618,631**	**₱–**	**₱68,697,846**
Depreciation and amortization	**9,514,073**	**143,438**	**560,854**	**606,713**	**–**	**10,825,078**

	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

For the years ended December 31, 2019, 2018 and 2017, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers. The main revenues of the Company are substantially earned from the Philippines.

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

5. Acquisition of Non-controlling Interest and Business Combinations

Acquisition of Non-controlling Interest
In August 2019, the Parent Company acquired the remaining 40% of the outstanding common stock of PMI from SMIC for a total consideration of ₱4,106 million. The valuation of the non-controlling interest was based on the appraised values of the real estate assets of PMI as at January 25, 2019. The acquisition resulted to equity reserve adjustment, included under "Additional paid-in capital-net" account in the equity section of the consolidated balance sheets amounting to ₱1,946 million (see Note 19).

Common Control Business Acquisitions
In December 2016, the Parent Company, through PCPMC, acquired 90% of the outstanding shares of Shopping Center Management Corporation (SCMC). In January 2017, the Parent Company, through SM Lifestyle, Inc., acquired 90% of the outstanding stock of Family Entertainment Center, Inc. In September 2017, the Parent Company, through PCPMC, acquired the remaining 10% of the outstanding common stock of SCMC. The companies involved are all under common control by the Sy Family thus accounted for using pooling of interest method.

6. Cash and Cash Equivalents

This account consists of:

	2019	2018
	(In Thousands)	
Cash on hand and in banks (see Note 20)	**₱4,564,399**	₱3,887,600
Temporary investments (see Note 20)	**30,035,560**	34,878,867
	₱34,599,959	₱38,766,467

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 ₱1,304 million, ₱1,297 million and ₱723 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

7. Financial Assets at FVOCI

This account consisted of investments in listed common shares, which were disposed in 2018.

In 2018, mark-to-market loss on changes in fair value of financial assets at FVOCI amounting to ₱4 million is recognized in other comprehensive income. In 2017, mark-to-market loss on changes in fair value of financial assets at FVTPL amounting to ₱4 million is included under "Others - net" account in the consolidated statement of income.

Interest income earned amounted ₱15 million for the year ended December 31, 2017 (see Note 23).

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

8. Receivables and Contract Assets

This account consists of:

	2019	2018
	(In Thousands)	
Trade (billed and unbilled):		
Sale of real estate*	**₱66,604,837**	₱50,748,255
Rent:		
Third parties	**6,347,182**	5,544,270
Related parties (see Note 20)	**3,733,761**	3,024,750
Others (see Note 20)	**40,754**	124,530
Nontrade	**241,413**	252,196
Accrued interest (see Note 20)	**128,743**	134,801
Others (see Note 20)	**2,474,556**	2,666,855
	79,571,246	62,495,657
Less allowance for ECLs	**1,053,549**	1,034,040
	78,517,697	61,461,617
Less noncurrent portion of trade receivables from sale of real estate (see Note 15)	**24,880,776**	26,232,167
	₱53,636,921	₱35,229,450

**Includes unbilled revenue from sale of real estate amounting to ₱59,903 million and ₱46,501 million as at December 31, 2019 and 2018, respectively.*

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 (billed and unbilled) on a without recourse basis to local banks amounting to ₱7,689 million and ₱1,664 million for the years ended December 31, 2019 and 2018, respectively (see Note 20).

  The Company also has assigned receivables from real estate (billed and unbilled) on a with recourse basis to local banks with outstanding balance of ₱1,986 million and nil as at December 31, 2019 and 2018, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rate of 4.25% to 4.50% in 2019 and 4.50% to 6.50% in 2018. The fair values of the assigned receivables and the related liabilities approximate their costs.

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

Interest income earned from receivables totaled ₱92 million, ₱75 million and ₱58 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

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:

	2019	2018
	(In Thousands)	
At beginning of year	**₱1,034,040**	₱1,053,582
Provision (write-off) - net	**19,509**	(19,542)
At end of year	**₱1,053,549**	₱1,034,040

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

	2019	2018
	(In Thousands)	
Neither past due nor impaired	**₱70,428,499**	₱55,907,949
Past due but not impaired:		
Less than 30 days	**3,000,288**	2,124,715
31–90 days	**2,890,044**	1,340,889
91–120 days	**650,958**	687,725
Over 120 days	**1,547,908**	1,400,339
Impaired	**1,053,549**	1,034,040
	₱79,571,246	₱62,495,657

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 totaling ₱11,424 million and ₱12,929 million as at December 31, 2019 and 2018, respectively, are expected to be recognized over the construction period ranging from one to five years.

9. Real Estate Inventories

The movements in this account are as follows:

	Land and Development	Condominium Units for Sale	Residential Units and Subdivision Lots	Total
		(In Thousands)		
Balance as at December 31, 2017	₱58,666,174	₱8,566,351	₱166,948	₱67,399,473
Development cost incurred	20,320,803	–	–	20,320,803
Cost of real estate sold (see Note 22)	(15,390,337)	(2,177,394)	(201,477)	(17,769,208)
Transfers	(1,733,711)	1,550,984	182,727	–
Reclassifications to investment properties (see Note 13)	(32,400,724)	–	–	(32,400,724)
Translation adjustment and others	24,759	–	–	24,759
Balance as at December 31, 2018	29,486,964	7,939,941	148,198	37,575,103
Development cost incurred	22,263,906	–	–	22,263,906
Cost of real estate sold (see Note 22)	(14,632,001)	(6,006,765)	(155,594)	(20,794,360)
Transfers	(4,089,397)	3,947,179	142,218	–
Reclassifications from investment properties (see Note 13)	5,002,450	–	–	5,002,450
Translation adjustment and others	(100,990)	–	–	(100,990)
Balance as at December 31, 2019	₱37,930,932	₱5,880,355	₱134,822	₱43,946,109

Land and development pertain to the Company's on-going residential units and condominium projects. Estimated cost to complete the projects amounted to ₱74,238 million and ₱51,097 million as at December 31, 2019 and 2018, respectively.

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

Condominium and residential units for sale pertain to completed projects. These are stated at cost as at December 31, 2019 and 2018.

Contract fulfillment assets, included under land and development, mainly pertain to unamortized portion of land cost totaling ₱720 million and ₱1,232 million as at December 31, 2019 and 2018, respectively.

10. Equity Instruments at FVOCI

This account consists of investments in:

	2019	2018
	(In Thousands)	
Shares of stock:		
Listed (see Note 20)	**₱21,076,655**	₱23,508,022
Unlisted	**3,381**	24,231
	21,080,036	23,532,253
Less noncurrent portion	**20,420,959**	22,892,937
	₱659,077	₱639,316

- Listed shares of stock pertain to investments in publicly-listed companies.
- Unlisted shares of stock pertain to stocks of private corporations.

In August 2019, the Parent Company sold a portion of its listed shares to SMIC based on 30-day volume-weighted average price as of July 26, 2019 resulting in a realized gain amounting to ₱2,879 million directly recognized in retained earnings.

Dividend income from investments at FVOCI amounted to ₱314 million, ₱394 million and ₱354 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 20).

The movements in the "Net fair value changes of equity instruments at FVOCI" account are as follows:

	2019	2018
	(In Thousands)	
At beginning of the year	**₱19,084,597**	₱25,489,705
Unrealized loss due to changes in fair value - net of transfers	**(1,243,607)**	(6,405,108)
At end of the year	**₱17,840,990**	₱19,084,597

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2019	2018
	(In Thousands)	
Advances and deposits	**₱8,261,828**	₱6,108,850
Input and creditable withholding taxes	**6,781,180**	5,658,232
Prepaid taxes and other prepayments	**3,905,472**	2,845,331
Supplies and inventories	**370,330**	362,833
Cash in escrow and others (see Notes 20 and 27)	**166,732**	171,783
	₱19,485,542	₱15,147,029

- 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 ₱4 million, ₱2 million and ₱2 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

12. Property and Equipment - net

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	ROUA -Office Spaces	Construction in Progress	Total
				(In Thousands)				
Cost								
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 (see Note 13)	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
Effect of PFRS 16 adoption	–	–	–	–	–	10,290	–	10,290
Additions	13,220	42,768	34,128	9,401	36,716	–	381	136,614
Disposals/retirements	–	(3,827)	(312)	(3,967)	(149)	–	–	(8,255)
Reclassifications	–	1,830	–	–	–	–	(1,830)	–
Balance at December 31, 2019	**₱262,544**	**₱1,862,647**	**₱348,567**	**₱96,247**	**₱723,731**	**₱10,290**	**₱108**	**₱3,304,134**
Accumulated Depreciation and Amortization								
Balance at December 31, 2017	₱415	₱744,601	₱215,377	₱59,010	₱527,273	₱–	₱–	₱1,546,676
Depreciation and amortization (see Note 22)	792	113,826	31,371	19,112	35,284	–	–	200,385
Disposals/retirements	–	–	–	–	(679)	–	–	(679)
Reclassifications (see Note 13)	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
Depreciation and amortization (see Note 22)	3,017	100,283	28,974	3,634	44,313	2,420	–	182,641
Disposals/retirements	–	(3,827)	(301)	(3,924)	(149)	–	–	(8,201)
Balance at December 31, 2019	**₱10,704**	**₱961,151**	**₱278,748**	**₱77,832**	**₱589,959**	**₱2,420**	**₱–**	**₱1,920,814**
Net Book Value								
As at December 31, 2018	₱241,637	₱957,181	₱64,676	₱12,691	₱141,369	₱–	₱1,557	₱1,419,111
As at December 31, 2019	**₱251,840**	**₱901,496**	**₱69,819**	**₱18,415**	**₱133,772**	**₱7,870**	**₱108**	**₱1,383,320**

13. Investment Properties

The movements in this account are as follows:

	Land Held for Future Development	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	ROUA - Land	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance as at December 31, 2017	₱–	₱64,067,484	₱207,454,220	₱36,077,251	₱–	₱33,182,636	₱340,781,591
Additions	17,443,522	4,331,600	8,480,962	3,016,764	–	14,318,076	47,590,924
Reclassifications (see Notes 9 and 12)	32,400,724	(1,450,592)	9,070,215	1,112,147	–	(8,731,468)	32,401,026
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	49,844,246	66,877,711	224,775,902	39,780,170	–	38,740,171	420,018,200
Effect of PFRS 16 adoption	–	(145,995)	–	–	19,761,645	–	19,615,650
Additions	22,801,889	6,760,551	2,156,348	1,863,980	3,000,000	29,076,123	65,658,891
Reclassifications (see Note 9)	(1,803,370)	(3,173,524)	12,679,149	1,261,397	–	(13,966,102)	(5,002,450)
Translation adjustment	–	(67,417)	(1,976,026)	(157,843)	(556,102)	(69,322)	(2,826,710)
Disposals	–	(4,012)	(18,639)	(159,680)	(2,073)	(1,153)	(185,557)
Balance as at December 31, 2019	**₱70,842,765**	**₱70,247,314**	**₱237,616,734**	**₱42,588,024**	**₱22,203,470**	**₱53,779,717**	**₱497,278,024**
Accumulated Depreciation and Amortization							
Balance as at December 31, 2017	₱–	₱1,920,473	₱43,981,769	₱21,795,203	₱–	₱–	₱67,697,445
Depreciation and amortization (see Note 22)	–	212,082	6,182,725	3,060,234	–	–	9,455,041
Reclassifications (see Notes 9 and 12)	–	(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
Depreciation and amortization (see Note 22)	–	229,686	6,807,228	3,055,683	549,840	–	10,642,437
Reclassifications	–	7,563	(7,563)	–	–	–	–
Translation adjustment	–	(35,053)	(355,546)	(88,474)	(4,416)	–	(483,489)
Disposals	–	(2,883)	(10,454)	(105,893)	(610)	–	(119,840)
Balance as at December 31, 2019	**₱–**	**₱2,270,162**	**₱56,648,135**	**₱27,175,335**	**₱544,814**	**₱–**	**₱86,638,446**
Net Book Value							
As at December 31, 2018	₱49,844,246	₱64,806,862	₱174,561,432	₱15,466,151	₱–	₱38,740,171	₱343,418,862
As at December 31, 2019	**₱70,842,765**	**₱67,977,152**	**₱180,968,599**	**₱15,412,689**	**₱21,658,656**	**₱53,779,717**	**₱410,639,578**

Portions of investment properties located in China with total carrying value of ₱1,738 million and ₱1,886 million as at December 31, 2019 and 2018, respectively, are mortgaged as collaterals to secure domestic borrowings (see Note 18).

Consolidated rent income from investment properties amounted to ₱61,760 million, ₱57,163 million and ₱51,406 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Consolidated costs and expenses from investment properties, which generate income, amounted to ₱34,060 million, ₱31,684 million and ₱29,370 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱53,780 million and ₱38,740 million as at December 31, 2019 and 2018, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱55,155 million and ₱47,100 million as at December 31, 2019 and 2018, 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 ₱24,676 million and ₱15,738 million as at December 31, 2019 and 2018, respectively.

Interest capitalized to the construction of investment properties amounted to ₱3,143 million, ₱2,681 million and ₱2,299 million for the years ended December 31, 2019, 2018 and 2017, respectively. Capitalization rates used range from 2.35% to 5.13%, from 2.35% to 5.04%, and from 2.35% to 4.77% for the years ended December 31, 2019, 2018 and 2017, respectively.

The most recent fair value of investment properties amounted to ₱1,305,810 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 mainly 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. The average discount rates and capitalization rates used were 4.00% to 6.00% with an average growth rate of 1.00% to 5.00%.

Investment properties are categorized under Level 3 fair value measurement.

The Company's management believes that there were no conditions present in 2019 that would significantly reduce the fair value of the investment properties from that determined on September 30, 2018. While the fair value of the newly constructed investment properties was not determined as at December 31, 2019, the Company's management believes that cost of the investment properties approximate their fair values as at December 31, 2019.

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.

14. 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, 2019, OHI's total assets, total liabilities and total equity amounted to ₱40,023 million, ₱30,735 million and ₱9,288 million, respectively. The carrying value of investment in OHI amounted to ₱17,639 million, which consists of its proportionate share in the net assets of OHI amounting to ₱3,867 million and fair value adjustments and others totaling ₱13,772 million.

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 ₱3,148 million and fair value adjustments and others totaling ₱13,772 million.

The share in profit of OHI amounted to ₱719 million, ₱727 million and ₱589 million for the years ended December 31, 2019, 2018 and 2017, respectively. There is no share in other comprehensive income for the years ended December 31, 2019, 2018 and 2017.

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 ₱1,276 million and ₱1,340 million as at December 31, 2019 and 2018, respectively. This consists of the acquisition cost amounting to ₱292 million and cumulative equity in net earnings amounting to ₱984 million and ₱1,048 million as at December 31, 2019 and 2018, respectively. The share in profit amounted to nil, ₱61 million and ₱47 million for the years ended December 31, 2019, 2018 and 2017, respectively. There is no share in other comprehensive income for the years ended December 31, 2019, 2018 and 2017.

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 31 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 ₱6,675 million and ₱6,304 million as at December 31, 2019 and 2018, respectively. These consist of the acquisition costs totaling ₱5,145 million and cumulative equity in net earnings, net of dividends received, totaling ₱1,530 million and ₱1,159 million as at December 31, 2019 and 2018, respectively. The share in profit, net of dividends received, amounted to ₱371 million, ₱326 million and ₱204 million for the years ended December 31, 2019, 2018 and 2017, respectively. There is no share in other comprehensive income for the years ended December 31, 2019, 2018 and 2017.

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 as at December 31, 2019 and 2018. 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 ₱79 million and ₱47 million as at December 31, 2019 and 2018, respectively. These consist of the acquisition costs totaling ₱86 million and ₱60 million and cumulative equity in net loss totaling ₱7 million and ₱13 million as at December 31, 2019 and 2018, respectively. There is no share in other comprehensive income for the years ended December 31, 2019 and 2018.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2019 and 2018.

15. Other Noncurrent Assets

This account consists of:

	2019	2018
	(In Thousands)	
Receivables from sale of real estate - net of current portion* (see Note 8)	**₱24,880,776**	₱26,232,167
Bonds and deposits	**23,659,284**	39,594,024
Time deposits (see Notes 20 and 28)	**2,412,972**	2,392,622
Deferred input tax	**1,144,582**	1,171,185
Land use rights and others (see Note 24)	**1,466,037**	11,520,062
	₱53,563,651	₱80,910,060

**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.

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 ₱32 million, ₱42 million and ₱46 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

Land use rights and Others
Included under "Land use rights and others" 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.

16. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱100 million and ₱39 million as at December 31, 2019 and 2018, respectively, with due dates of less than one year. These loans bear interest rates of 4.30% in 2019 and 6.00% in 2018.

Interest expense incurred from loans payable amounted to ₱28 million, ₱21 million and ₱31 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

17. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
	(In Thousands)	
Trade:		
Third parties	**₱33,593,152**	₱25,987,678
Related parties (see Note 20)	**98,765**	282,337
Tenants' and customers' deposits* (see Note 26)	**34,514,623**	31,375,908
Lease liabilities (see Note 3)	**11,213,547**	–
Accrued operating expenses:		
Third parties	**9,270,065**	9,338,262
Related parties (see Note 20)	**455,154**	455,954
Liability for purchased land	**8,983,584**	14,019,013
Deferred output VAT	**4,797,328**	3,087,528
Accrued interest (see Note 20)	**1,991,323**	1,881,165
Payable to government agencies	**1,216,212**	1,170,561
Nontrade	**360,582**	286,841
Liability from assigned receivables and others (see Note 8)	**4,634,033**	1,458,027
	111,128,368	89,343,274
Less noncurrent portion	**41,002,618**	27,576,188
	₱70,125,750	₱61,767,086

**Includes unearned revenue from sale of real estate amounting to ₱6,023 million and ₱4,195 million as at December 31, 2019 and 2018, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, 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:

	2019	2018
	(In Thousands)	
Payable to contractors	**₱3,381,980**	₱1,736,748
Utilities	**2,888,920**	4,484,483
Marketing and advertising and others	**2,999,165**	3,117,031
	₱9,270,065	₱9,338,262

- 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. 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. The amount of revenue recognized in 2019 and 2018 from amounts included in unearned revenue from sale of real estate at the beginning of the year amounted to ₱2,769 million and ₱2,020 million, respectively.
- 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.
- Lease liabilities included in "Other noncurrent liabilities" amounted to ₱11,151 million as at December 31, 2019. Interest on lease liabilities included under "Others - net" in the consolidated statements of income amounted to ₱317 million as at December 31, 2019.

18. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance 2019	2018
					(In Thousands)	
Parent Company						
Philippine peso-denominated loans						
Retail bonds	November 25, 2015 - May 17, 2019	March 1, 2020 - July 26, 2026	4.20% - 6.22%	Unsecured	**₱100,000,000**	₱90,000,000
Other bank loans	January 12, 2012 - June 20, 2016	December 21, 2022 - June 20, 2023	Floating BVAL + margin; Fixed 6.10% - 6.74%	Unsecured	**22,048,400**	22,323,200
U.S. dollar-denominated loans*	July 30, 2018	June 14, 2023	LIBOR + spread; semi-annual	Unsecured	**5,569,850**	5,783,800
Subsidiaries						
Philippine peso-denominated loans	June 3, 2013 - December 27, 2019	January 28, 2019 - August 7, 2029	Floating BVAL + margin; Fixed - 3.84% -7.55%	Unsecured	**74,511,969**	66,490,939
U.S. dollar-denominated loans**	April 23, 2014 - April 15, 2019	April 14, 2019 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	**34,179,449**	36,191,602
China yuan renminbi-denominated loans	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10%; quarterly; Fixed - 5.85%	Secured***	**2,670,803**	3,118,514
					238,980,471	223,908,055
Less debt issue cost					**1,126,048**	1,136,169
					237,854,423	222,771,886
Less current portion					**23,521,373**	25,089,624
					₱214,333,050	₱197,682,262

LIBOR – London Interbank Offered Rate
BVAL – Bloomberg Valuation Service
CBC – Central Bank of China
**Hedged against foreign exchange risks using cross-currency swaps (see Notes 27 and 28)*
*** Hedged against foreign exchange and interest rate risks using cross-currency swaps, principal-only swaps and interest rate swaps (see Notes 27 and 28)*
****Secured by portions of investment properties located in China (see Notes 13 and 15)*

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, 2019 and 2018, 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 ₱8,663 million, ₱7,451 million and ₱5,251 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 23).

Debt Issue Cost

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

	2019	2018
	(In Thousands)	
Balance at beginning of the year	**₱1,136,169**	₱956,980
Additions	**386,742**	549,560
Amortization	**(396,863)**	(370,371)
Balance at end of the year	**₱1,126,048**	₱1,136,169

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	₱23,521,373	(₱352,995)	₱23,168,378
More than 1 year to 5 years	186,044,158	(745,198)	185,298,960
More than 5 years	29,414,940	(27,855)	29,387,085
	₱238,980,471	(₱1,126,048)	₱237,854,423

19. Equity

Capital Stock
As at December 31, 2019 and 2018, 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:

	2019	2018
	(In Thousands)	
Balance at beginning of the year	**28,856,412**	28,837,814
Reissuance of treasury shares	**–**	18,598
Balance at end of the year	**28,856,412**	28,856,412

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 2,399 as at December 31, 2019.

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

	2019	2018
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,549,808**	₱33,549,808
Net equity adjustments from common control business combinations	**9,309,730**	9,309,730
Arising from acquisition of non-controlling interests (see Note 5)	**(4,851,870)**	(2,906,320)
As presented in the consolidated balance sheets	**₱38,007,668**	₱39,953,218

Retained Earnings
In 2019, the BOD approved the declaration of cash dividend of ₱0.35 per share or ₱10,108 million to stockholders of record as of May 8, 2019, ₱8 million of which was received by SMDC. This was paid on May 22, 2019. 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.

As at December 31, 2019 and 2018, 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 2020, 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 ₱91,773 million and ₱75,721 million as at December 31, 2019 and 2018, respectively, representing the cost of shares held in treasury (₱2,985 million as at December 31, 2019 and 2018) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures ₱88,788 million and ₱72,736 million as at December 31, 2019 and 2018, 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, 2019 and 2018, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱2,985 million. The movement of the treasury stock of the Company are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**4,309,888**	4,328,486
Sale of treasury shares	**–**	(18,598)
Balance at end of year	**4,309,888**	4,309,888

20. 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, 2019 and 2018, 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 Company has approval process and established limits when entering into material related party transactions.

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)]			
	2019	2018	2017	**2019**	2018	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱46,314**	₱45,391	₱55,459	**₱–**	₱–		
Rent receivable	**–**	–	–	**4,846**	4,967	Noninterest-bearing	Unsecured; not impaired
Management fee income	**3,183**	2,885	–	**–**	–		
Service income	**57,600**	57,600	48,000	**–**	–		
Service fee receivable	**–**	–	–	**14,080**	14,000	Noninterest-bearing	Unsecured; not impaired
Rent expense	**113,152**	105,583	102,231	**–**	–		
Accrued rent payable	**–**	–	–	**(8)**	(808)	Noninterest-bearing	Unsecured
Trade payable	**7,955**	6,539	5,952	**(24,759)**	(16,805)	Noninterest-bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**152,386**	134,050	Noninterest-bearing	Unsecured
Dividend income	**1,332**	1,198	1,135	**–**	–		
Bank and Retail Affiliates							
Cash and cash equivalents	**123,976,281**	160,983,099	171,812,742	**21,375,689**	24,890,200	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	**–**	–	122,660	**–**	–	Noninterest-bearing	Unsecured; not impaired
Rent income	**17,103,118**	16,079,276	14,558,585	**–**	–		
Rent receivable	**–**	–	–	**3,712,435**	3,006,209	Noninterest-bearing	Unsecured; not impaired
Service income	**19,895**	28,559	30,023	**–**	–		
Management fee income	**256**	999	5,979	**–**	–		
Management fee receivable	**–**	–	–	**16,882**	14,469	Noninterest-bearing	Unsecured; not impaired
Deferred rent income	**–**	–	–	**–**	(8,950)	Noninterest bearing	Unsecured
Interest income	**862,812**	374,432	297,719	**–**	–		
Accrued interest receivable	**–**	–	–	**51,668**	29,963	Noninterest-bearing	Unsecured; not impaired
Receivable financed	**7,689,986**	1,663,822	4,923,847	**–**	–	Without recourse	Unsecured
Time deposits	**30,375**	–	–	**2,412,972**	2,382,597	Interest-bearing	Unsecured
Loans payable and long-term debt	**2,500,330**	9,205,385	386	**(12,277,815)**	(9,824,904)	Interest-bearing	Combination of secured and unsecured
Interest expense	**714,250**	252,296	139,292	**–**	–		
Accrued interest payable	**–**	–	–	**(57,229)**	(3,878)	Noninterest-bearing	Unsecured
Rent expense	**461**	634	1,004	**–**	–		
Trade payable	**–**	38,510	47,803	**(63,136)**	(138,782)	Noninterest-bearing	Unsecured
Management fee expense	**3,425**	11,217	3,093	**–**	–		
Equity instruments at FVOCI	**–**	–	–	**14,223,854**	15,011,058	Noninterest-bearing	Unsecured
Cash in escrow	**149,038**	157,719	–	**117,985**	157,719	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	**186,098**	225,357	212,740	**–**	–		
Other Related Parties							
Rent income	**187,219**	178,572	119,238	**–**	–		
Rent receivable	**–**	–	–	**16,480**	13,574	Noninterest-bearing	Unsecured; not impaired
Service income	**92,823**	77,579	92,943	**–**	–		
Service fee receivable	**–**	–	–	**1,963**	62	Noninterest-bearing	Unsecured; not impaired
Management fee income	**15,491**	6,859	2,799	**–**	–		
Management fee receivable	**–**	–	–	**6,862**	7,993	Noninterest-bearing	Unsecured; not impaired
Rent expense	**8,602**	8,311	5,735	**–**	–		
Accrued expenses	**–**	–	–	**(455,146)**	(455,146)	Noninterest-bearing	Unsecured
Trade payable	**–**	–	176,761	**(10,870)**	(126,750)	Noninterest-bearing	Unsecured
Dividend income	**–**	88,266	87,885	**–**	–		

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 (Retail Affiliates), BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates) 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 and China Bank. Such accounts earn interest based on prevailing market interest rates (see Note 6).

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 16 and 18).

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 2019 and 2018 (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, 2019, 2018 and 2017 consist of short-term employee benefits amounting to ₱1,179 million, ₱1,104 million and ₱930 million, respectively, and post-employment benefits (pension benefits) amounting to ₱182 million, ₱165 million and ₱144 million, respectively.

21. Other Revenue

Details of other revenue follows:

	2019	2018	2017
		(In Thousands)	
Food and beverages	**₱1,733,424**	₱1,668,705	₱1,620,269
Net merchandise sales	**973,897**	902,730	740,356
Amusement and others	**925,485**	911,580	851,264
Bowling and ice skating fees	**291,909**	253,911	219,378
Advertising income	**220,331**	214,473	202,000
Others	**2,392,600**	1,875,384	1,680,875
	₱6,537,646	₱5,826,783	₱5,314,142

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

22. Costs and Expenses

This account consists of:

	2019	2018	2017
		(In Thousands)	
Cost of real estate sold (see Note 9)	**₱20,794,360**	₱17,769,208	₱15,151,804
Administrative (see Notes 20 and 24)	**12,100,309**	11,329,111	10,860,321
Depreciation and amortization (see Notes 12 and 13)	**10,825,078**	9,655,426	8,959,170
Marketing and selling	**6,408,579**	5,530,794	4,788,603
Business taxes and licenses	**4,819,840**	4,790,129	4,406,480
Film rentals	**3,048,427**	2,829,629	2,600,839
Rent (see Notes 20 and 26)	**1,255,788**	1,729,671	1,597,970
Insurance	**542,349**	518,168	475,732
Others	**1,824,432**	1,601,198	1,452,139
	₱61,619,162	₱55,753,334	₱50,293,058

In 2019, rent expense pertain to variable payments for various lease agreements, payments for short-term leases and leases of low-value assets.

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

23. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2019	2018	2017
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱1,304,094**	₱1,297,364	₱723,235
Time deposits (see Note 15)	**32,149**	42,160	46,424
Financial asset at FVTPL (see Note 7)	**–**	–	14,891
Others (see Notes 8 and 11)	**96,017**	76,924	59,288
	₱1,432,260	₱1,416,448	₱843,838
Interest expense on:			
Long-term debt (see Note 18)	**₱8,663,340**	₱7,451,159	₱5,251,144
Loans payable (see Note 16)	**28,055**	21,054	30,737
Others	**141,375**	67,832	192,541
	₱8,832,770	₱7,540,045	₱5,474,422

24. 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, 2019.

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")

	2019	2018	2017
		(In Thousands)	
Current service cost	**₱327,853**	₱296,007	₱286,297
Net interest income	**(9,973)**	(13,279)	(32,062)
	₱317,880	₱282,728	₱254,235

Net Pension Asset (included under "Other noncurrent assets" account)

	2019	2018
	(In Thousands)	
Fair value of plan assets	**₱226,448**	₱1,427,448
Defined benefit obligation	**(149,375)**	(1,339,655)
Effect of asset ceiling limit	**(11,186)**	(15,148)
Net pension asset	**₱65,887**	₱72,645

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2019	2018
	(In Thousands)	
Defined benefit obligation	**₱3,591,858**	₱1,160,163
Fair value of plan assets	**(2,876,419)**	(1,023,976)
Net pension liability	**₱715,439**	₱136,187

The changes in the present value of the defined benefit obligation are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of the year	**₱2,499,818**	₱2,164,819
Actuarial loss (gain):		
Changes in financial assumptions	**601,169**	(495,054)
Experience adjustments	**180,426**	433,932
Changes in demographic assumptions	**22,494**	14,117
Current service cost	**327,853**	296,007
Interest cost	**193,627**	125,370
Benefits paid	**(79,068)**	(57,447)
Transfer to (from) the plan	**(5,086)**	10,109
Other adjustments	**–**	7,965
Balance at end of the year	**₱3,741,233**	₱2,499,818

The above present value of defined benefit obligation are broken down as follows:

	2019	2018
	(In Thousands)	
Related to pension asset	**₱149,375**	₱1,339,655
Related to pension liability	**3,591,858**	1,160,163
	₱3,741,233	₱2,499,818

The changes in the fair value of plan assets are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱2,451,424**	₱2,277,227
Contributions	**498,788**	356,040
Interest income	**204,775**	140,309
Benefits paid from assets	**(79,068)**	(57,447)
Transfer to (from) the plan and others	**(5,086)**	10,109
Remeasurement gain (loss)	**32,034**	(274,814)
Balance at end of year	**₱3,102,867**	₱2,451,424

The changes in the fair value of plan assets are broken down as follows:

	2019	2018
	(In Thousands)	
Related to pension asset	**₱226,448**	₱1,427,448
Related to pension liability	**2,876,419**	1,023,976
	₱3,102,867	₱2,451,424

The changes in the effect of asset ceiling limit are as follows:

	2019	2018
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱15,148**	₱28,759
Remeasurement gain	**(5,137)**	(15,271)
Interest cost	**1,175**	1,660
	₱11,186	₱15,148

The carrying amounts and fair values of the plan assets as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱18,228**	**₱18,228**	₱203,807	₱203,807
Investments in:				
Common trust funds	**1,237,861**	**1,237,861**	799,380	799,380
Government securities	**1,069,767**	**1,069,767**	715,089	715,089
Debt and other securities	**727,017**	**727,017**	662,123	662,123
Equity securities	**31,603**	**31,603**	56,500	56,500
Other financial assets	**18,391**	**18,391**	14,525	14,525
	₱3,102,867	**₱3,102,867**	₱2,451,424	₱2,451,424

- 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 3.25% to 8.75% and have maturities ranging from 2020 to 2030;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 3.50% to 7.51% and have maturities ranging from 2020 to 2026;
- 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:

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱18,228**	₱203,807
Interest income from cash and cash equivalents	**5,314**	10,328
Investments in common trust funds	**1,237,861**	799,380
Gain (loss) from investments in common trust funds	**4**	(3,858)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2019	2018	2017
Discount rate	**5.5%–5.6%**	7.4%–7.8%	5.7%–5.8%
Future salary increases	**3.0%–9.0%**	3.0%–9.0%	4.0%–10.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2019	2018	2017
		(In Thousands)	
Actuarial loss	**₱772,055**	₱227,809	₱396,511
Remeasurement gain - excluding amounts recognized in net interest cost	**(5,137)**	(15,271)	(50,151)
	₱766,918	₱212,538	₱346,360

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, 2019 and 2018, respectively, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
2019		*(In Thousands)*
Discount rates	**50**	**(₱170,376)**
	(50)	**185,129**
Future salary increases	**100**	**370,345**
	(100)	**(320,998)**
2018		
Discount rates	50	(₱101,386)
	(50)	109,328
Future salary increases	100	221,857
	(100)	(194,777)

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, 2019 and 2018, respectively:

Year 2019	Amount
	(In Thousands)
2020	**₱579,542**
2021	**461,929**
2022–2023	**618,296**
2024–2029	**2,421,611**

Year 2018	Amount
	(In Thousands)
2019	₱390,127
2020	233,043
2021–2022	671,628
2023–2028	2,219,158

The Company expects to contribute about ₱553 million to its defined benefit pension plan in 2020.

The weighted average duration of the defined benefit obligation is 9.4 years and 9.7 years as of December 31, 2019 and 2018, respectively.

25. Income Tax

The details of the Company's deferred tax assets and liabilities are as follows:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Lease liabilities	**₱2,019,512**	₱–
NOLCO	**413,026**	508,314
Unrealized foreign exchange losses	**408,342**	231,560
Excess of fair value over cost of investment properties and others	**347,763**	364,249
Provision for ECLs on receivables	**105,450**	105,090
Unamortized past service cost	**27,895**	17,443
MCIT	**17,088**	3,394
Deferred rent income	**4,073**	4,073
Others	**1,054,832**	303,857
	4,397,981	1,537,980
Deferred tax liabilities:		
Unrealized gross profit on sale of real estate	**(3,924,038)**	(2,000,677)
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(1,996,511)**	(1,791,729)
Right-of-use assets	**(1,597,089)**	–
Pension asset	**(28,861)**	(40,201)
Others	**(126,791)**	(149,204)
	(7,673,290)	(3,981,811)
Net deferred tax liabilities	**(₱3,275,309)**	(₱2,443,831)

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2019	2018
	(In Thousands)	
Deferred tax assets - net	**₱903,845**	₱1,083,670
Deferred tax liabilities - net	**(4,179,154)**	(3,527,501)
	(₱3,275,309)	(₱2,443,831)

As at December 31, 2019 and 2018, unrecognized deferred tax assets amounted to ₱174 million and ₱430 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:

	2019	2018	2017
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)	(0.9)
Availment of income tax holiday	**(4.1)**	(4.0)	(4.4)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.8)**	(1.2)	(1.0)
Others - net	**(3.1)**	(2.3)	(1.9)
Effective tax rates	**21.1%**	21.6%	21.8%

26. 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:

	2019	2018
	(In Millions)	
Within one year	**₱3,630**	₱3,838
After one year but not more than five years	**12,802**	9,944
After more than five years	**7,747**	3,259
	₱24,179	₱17,041

Consolidated rent income amounted to ₱61,760 million, ₱57,163 million and ₱51,406 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Company as Lessee
The Company also leases certain parcels of land where some of its 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.

Depreciation expense on ROUA, interest expense on lease liabilities and rent expense on other leases amounting to ₱552 million, ₱317 million and ₱1,256 million respectively, are recognized in the consolidated statement of income for the year ended December 31, 2019 (see Notes 12, 13, 17and 22).

The maturity analysis of the undiscounted lease payments as at December 31, 2019 is presented in Note 27 to the consolidated financial statements.

27. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, 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, and interest rate swaps. 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 28).

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, 2019 and 2018, after taking into account the effect of interest rate swaps, approximately 81% and 80%, respectively, of its long-term borrowings, are at a fixed rate of interest (see Note 28).

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, 2019 and 2018:

	2019						
	Interest Rate	**1–<2 Years**	**2–<3 Years**	**3–<4 Years**	**4–<5 Years**	**=>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated retail bonds	**4.20%–6.22%**	**₱15,035,740**	**₱20,331,520**	**₱10,000,000**	**₱10,000,000**	**₱44,632,740**	**₱100,000,000**
Philippine peso-denominated other bank loans	**3.84%–7.55%**	**₱7,019,589**	**₱6,576,260**	**₱12,436,260**	**₱11,592,860**	**₱12,775,000**	**50,399,969**
Floating Rate							
U.S. dollar-denominated loans	**LIBOR + spread**	**$–**	**$270,000**	**$100,000**	**$110,000**	**$286,000**	**39,749,299**
Philippine peso-denominated loans	**BVAL+margin%**	**₱1,325,100**	**₱3,150,100**	**₱8,235,100**	**₱18,209,100**	**₱15,241,000**	**46,160,400**
China yuan renminbi-denominated five-year loan	**CBC rate less 10%**	**¥19,382**	**¥–**	**¥347,900**	**¥–**	**¥–**	**2,670,803**
							238,980,471
Less debt issue cost							**1,126,048**
							₱237,854,423

	2018						
	Interest Rate	1–<2 Years	2–<3 Years	3–<4 Years	4–<5 Years	P>5 Years	Total
Fixed Rate							
Philippine peso-denominated retail bonds	4.20%–6.08%	₱–	₱15,035,740	₱20,331,520	₱–	₱54,632,740	₱90,000,000
Philippine peso-denominated other bank loans	3.84%–7.55%	₱7,004,439	₱6,865,320	₱6,311,260	₱11,911,260	₱19,937,860	52,030,139
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 loans	BVAL+margin%	₱1,425,000	₱1,825,000	₱3,325,000	₱8,085,000	₱22,124,000	36,784,000
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

LIBOR - London Interbank Offered Rate
BVAL – Bloomberg Valuation Services
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)
2019	**100**	**(₱35,221)**
	50	**(17,611)**
	(100)	**35,221**
	(50)	**17,611**
2018	100	(₱67,204)
	50	(33,602)
	(100)	67,204
	(50)	33,602

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$33 million (₱1,655 million) as at December 31, 2019 and US$43 million (₱2,252 million) as at December 31, 2018.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱50.64 to US$1.00 and ₱52.58 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2019 and 2018, 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 with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)
2019	**1.50**	**₱12,254**
	1.00	**8,169**
	(1.50)	**(12,254)**
	(1.00)	**(8,169)**
2018	1.50	₱16,063
	1.00	10,709
	(1.50)	(16,063)
	(1.00)	(10,709)

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 and equity instruments at FVOCI amounting to ₱34,600 million and ₱659 million, respectively, as at December 31, 2019 and ₱38,766 million and ₱639 million, respectively, as at December 31, 2018 (see Notes 6 and 10). 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:

	2019			
	Within 1 Year	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Loans payable	**₱100,000**	**₱–**	**₱–**	**₱100,000**
Accounts payable and other current liabilities*	**55,618,612**	**–**	**–**	**55,618,612**
Long-term debt (including current portion)	**30,199,771**	**209,574,775**	**95,275,297**	**335,049,843**
Derivative liabilities	**–**	**711,617**	**–**	**711,617**
Liability for purchased land - net of current portion	**–**	**4,214,234**	**–**	**4,214,234**
Tenants' deposits - net of current portion	**–**	**20,797,637**	**–**	**20,797,637**
Lease liabilities	**662,887**	**2,625,786**	**22,943,876**	**26,232,549**
Other noncurrent liabilities**	**–**	**8,184,737**	**–**	**8,184,737**
	₱86,581,270	**₱246,108,786**	**₱118,219,173**	**₱450,909,229**

	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

***Excluding nonfinancial liabilities and lease liabilities totaling to ₱14,507 million and ₱12,313 million as at December 31, 2019 and 2018, respectively.*
***Excluding nonfinancial liabilities and lease liabilities totaling to ₱16,238 million and ₱3,433 million as at December 31, 2019 and 2018, 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, 10 and 11).

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 28. 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, 2019 and 2018, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (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, 2019 and 2018, the credit quality of the Company's financial assets is as follows:

	2019			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	**₱34,399,825**	**₱–**	**₱–**	**₱34,399,825**
Receivables**	**128,743**	**10,632,459**	**8,089,198**	**18,850,400**
Cash in escrow (included under "Prepaid expenses and other current assets")	**117,985**	**–**	**–**	**117,985**
Time deposits (included under "Other noncurrent assets")	**2,412,972**	**–**	**–**	**2,412,972**
Financial assets at FVTPL				
Derivative assets	**826,315**	**–**	**–**	**826,315**
Financial assets at FVOCI				
Equity instruments	**21,076,655**	**3,381**	**–**	**21,080,036**
	₱58,962,495	**₱10,635,840**	**₱8,089,198**	**₱77,687,533**

*** Excluding cash on hand amounting to ₱200 million*
***Excluding nonfinancial assets amounting to ₱34,787 million*

	2018			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	₱38,637,321	₱–	₱–	₱38,637,321
Receivables**	134,801	9,271,008	5,553,669	14,959,478
Cash in escrow (included under "Prepaid expenses and other current assets")	157,719	–	–	157,719
Time deposits (included under "Other noncurrent assets")	2,392,622	–	–	2,392,622
Financial assets at FVTPL				
Derivative assets	852,933	–	–	852,933
Financial assets at FVOCI				
Equity instruments	23,508,022	24,231	–	23,532,253
	₱65,683,418	₱9,295,239	₱5,553,669	₱80,532,326

*** Excluding cash on hand amounting to ₱129 million*
***Excluding nonfinancial assets amounting to ₱20,270 million*

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, 2019 and 2018) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2019	
	Change in Equity Price	Effect on Equity
		(In Millions)
Equity instruments at FVOCI	**+2.86%**	**₱133**
	-2.86%	**(133)**

	2018	
	Change in Equity Price	Effect on Equity
		(In Millions)
Equity instruments at FVOCI	+1.78%	₱103
	-1.78%	(103)

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

	2019	2018
	(In Thousands)	
Loans payable	**₱100,000**	₱39,400
Current portion of long-term debt	**23,521,373**	25,089,624
Long-term debt - net of current portion	**214,333,050**	197,682,262
Total interest-bearing debt (a)	**237,954,423**	222,811,286
Total equity attributable to equity holders of the parent	**300,916,171**	275,302,994
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱538,870,594**	₱498,114,280
Gearing ratio (a/b)	**44%**	45%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2019	2018
	(In Thousands)	
Loans payable	**₱100,000**	₱39,400
Current portion of long-term debt	**23,521,373**	25,089,624
Long-term debt - net of current portion	**214,333,050**	197,682,262
Less cash and cash equivalents	**(34,599,959)**	(38,766,467)
Total net interest-bearing debt (a)	**203,354,464**	184,044,819
Total equity attributable to equity holders of the parent	**300,916,171**	275,302,994
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱504,270,635**	₱459,347,813
Gearing ratio (a/b)	40%	40%

28. 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:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVTPL:				
Derivative assets	**₱826,315**	**₱826,315**	₱852,933	₱852,933
Financial assets at amortized cost:				
Time deposits (included under "Other noncurrent assets")	**2,412,972**	**2,412,972**	2,392,622	2,339,327
Financial assets at FVOCI:				
Equity instruments	**21,080,036**	**21,080,036**	23,532,253	23,532,253
	₱24,319,323	**₱24,319,323**	₱26,777,808	₱26,724,513
Financial Liabilities				
Financial liabilities at FVTPL:				
Derivative liabilities	**₱711,617**	**₱711,617**	₱335,008	₱335,008
Loans and borrowings:				
Liability for purchased land - net of current portion	**4,214,234**	**3,895,885**	6,044,220	6,011,668
Long-term debt - net of current portion	**214,333,050**	**210,364,038**	197,682,262	182,162,127
Tenants' deposits - net of current portion	**20,797,637**	**20,598,862**	18,177,479	17,770,876
Other noncurrent liabilities*	**19,335,954**	**19,124,918**	7,078,916	6,978,719
	₱259,392,492	**₱254,695,320**	₱229,317,885	₱213,258,398

**Excluding nonfinancial liabilities amounting to ₱5,086 million and ₱3,433 million as at December 31, 2019 and 2018, 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.

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 2.96% to 6.48% and from 3.82% to 8.45% as at December 31, 2019 and 2018, 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 6.95% to 6.99% and 6.98% to 9.01% as at December 31, 2019 and 2018, 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 4.41% to 7.86% and 7.80% to 7.85% as at December 31, 2019 and 2018, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, time deposits (included under "Other noncurrent assets"), 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:

	2019		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVTPL:			
Derivative assets	**₱–**	**₱826,315**	**₱–**
Financial assets at amortized cost:			
Time deposits (included under "Other noncurrent assets")	**–**	**2,412,972**	**–**
Financial assets at FVOCI:			
Equity instruments	**21,076,655**	**–**	**3,381**
	₱21,076,655	**₱3,239,287**	**₱3,381**
Financial Liabilities			
Financial liabilities at FVTPL:			
Derivative liabilities	**₱–**	**₱711,617**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**–**	**–**	**3,895,885**
Long-term debt - net of current portion	**–**	**–**	**210,364,038**
Tenants' deposits	**–**	**–**	**20,598,862**
Other noncurrent liabilities*	**–**	**–**	**19,124,918**
	₱–	**₱711,617**	**₱253,983,703**

***Excluding nonfinancial liabilities amounting to ₱5,086 million as at December 31, 2019.**

	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	23,508,022	–	24,231
	₱23,508,022	₱3,192,260	₱24,231
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.*

During the years ended December 31, 2019 and 2018, 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.

Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2019, 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 April 15, 2019 (see Note 18).

Under the floating-to-fixed cross-currency swaps, it effectively converted the hedged US dollar-denominated loans into China renminbi-denominated loans. 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 (¥1,919 million for US$286 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the China renminbi notional amount and receives floating interest on the US$ notional amount, on a quarterly basis, simultaneous with the interest payments on the hedged loans at an interest rates ranging from 3.86% to 3.97%.

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 ranging from 6.37% to 6.39%.

In 2017, SM Land (China) Limited entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on May 8, 2017 and October 16, 2017 (see Note 18).

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 have a negative fair value of ₱341 million as at December 31, 2019.

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 18). 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, 2019, 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 fair value of ₱387 million as at December 31, 2019.

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 18). Fair value of the outstanding interest rate swaps amounted to ₱69 million.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be effective. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2019 and 2018.

Cumulative fair value changes recognized in equity under other comprehensive income from the matured interest rate swaps amounting to ₱18 million gain and nil was recognized in the consolidated statements of income for the years ended December 31, 2019 and 2018, respectively.

Below is the maturity profile of derivative financial instruments accounted for as cash flow hedges as at December 31, 2019 and 2018:

	2019			
Hedge Instruments*	**Within 1 year**	**2 to 3 years**	**4 to 5 years**	**Total**
		(amounts in thousands)		
Cross currency swaps	**USD–**	**USD110,000**	**USD386,000**	**USD496,000**
Principal only swaps	**–**	**270,000**	**–**	**270,000**
Interest rate swaps	**–**	**270,000**	**–**	**270,000**
	USD–	**USD650,000**	**USD386,000**	**USD1,036,000**

	2018			
Hedge Instruments*	Within 1 year	2 to 3 years	4 to 5 years	Total
				(amounts in thousands)
Cross currency swaps	USD–	USD–	USD210,000	USD210,000
Principal only swaps	–	270,000	–	270,000
Interest rate swaps	150,000	270,000	–	420,000
	USD150,000	USD540,000	USD210,000	USD900,000

**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
The change in fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to ₱30 million and ₱124 million as at December 31, 2019 and 2018, respectively, was taken to equity under other comprehensive income. For the years ended December 31, 2019 and 2018, no ineffectiveness was recognized in the consolidated statement of income. Foreign currency translation arising from the hedged loan amounting to ₱477 million loss in 2019, ₱2,247 million gain in 2018 and ₱1,082 million gain in 2017 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.

Derivative Financial Instruments Accounted for as Not Designated as Hedges

Forward Swaps. 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 18). Fair value changes from the matured forward swaps in 2019, amounting to ₱22 million gain, and ₱416 million gain was recognized in the consolidated statements of income for the years ended December 31, 2019 and 2018, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱517,925**	₱2,769,286
Net changes in fair value during the year	**(109,736)**	(2,199,029)
Fair value of settled derivatives	**(293,491)**	(52,332)
Balance at end of year	**₱114,698**	₱517,925

29. EPS Computation

Basic/diluted EPS is computed as follows:

	2019	2018	2017
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱38,085,601**	₱32,172,886	₱27,573,866
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 19)	**4,309,888**	4,311,949	4,332,630
Weighted average number of common shares outstanding (b)	**28,856,412**	28,854,351	28,833,670
Earnings per share (a/b)	**₱1.320**	₱1.115	₱0.956

30. Change in Liabilities Arising from Financing Activities

Movements in loans payable, long-term debt and lease liabilities accounts are as follows (see Notes 16, 17 and 18):

	2019			2018	
	Loans Payable	**Long-term Debt**	**Lease Liabilities**	Loans Payable	Long-term Debt
			(In Thousands)		
Balance at beginning of year	**₱39,400**	**₱222,771,886**	**₱–**	₱744,400	₱192,853,519
Effect of PFRS 16 adoption	**–**	**–**	**11,293,984**	–	–
Availments	**580,000**	**41,813,638**	**–**	–	54,115,835
Payments	**(519,400)**	**(25,466,777)**	**(80,437)**	(475,000)	(26,737,233)
Cumulative translation adjustment	**–**	**(1,823,229)**	**–**	–	(188,713)
Unrealized foreign exchange loss	**–**	**548,786**	**–**	–	2,677,665
Loan refinancing	**–**	**–**	**–**	(230,000)	230,000
Others	**–**	**10,119**	**–**	–	(179,187)
Balance at end of year	**₱100,000**	**₱237,854,423**	**₱11,213,547**	₱39,400	₱222,771,886

There are no non-cash changes in accrued interest and dividends payable. Others include debt issue cost additions and amortization and interest on lease liabilities.

CORPORATE INFORMATION

COMPANY HEADQUARTERS

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STOCKHOLDER INQUIRIES

SM Prime Holdings, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "SMPH." Inquiries regarding dividend payments, accounts status, address changes, stock certificates and other pertinent matters may be addressed to the company's transfer agent:

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Trust and Investment Group
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36978; 8-878-4052 to 54

Our complete Annual Reports can be viewed or downloaded at http://bit.ly/SMPH_AR19

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