



## **SM PRIME HOLDINGS, INC.**

(A corporation duly organized and existing under Philippine laws)

### **OFFER SUPPLEMENT**

dated 27 October 2021

Offer of up to ₱10,000,000,000 Fixed Rate Bonds  
under its ₱100,000,000,000 Debt Securities Shelf Registration  
consisting of

#### **5.0994% p.a. Series O Bonds due 2028**

at an Offer Price of 100% of Face Value

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

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS OFFER SUPPLEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION ("SEC").**

*Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters*




*Joint Bookrunners and Joint Lead Underwriters*



**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.**


**SM Prime Holdings, Inc.**

By:

  
**JEFFREY C. LIM**  
President

**SUBSCRIBED AND SWORN** to before me this 27<sup>th</sup> day of October 2021, affiant exhibiting to me his  at **TAGUIG CITY**

Doc. No. 122  
Book No. 46  
Page No. 71  
Series of 2021.

  
**ATTY. EDUARDO P. BAROT**  
Notary Public for Taguig, Roll No. 36248  
Commission No. 3 Until December 31, 2022  
PTR No. 4578428/01.04.21/Mandaluyong City  
IBP Lifetime Member No. 013895/06.02.15/ RSM  
MCLE Compliance No. VI-0007875 /04.14.22/  
3/F Bonifacio Technology Center 31st Street  
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Global City Taguig City, Philippines

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## SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated. The selected audited financial information presented below as at 31 December 2018, 2019, and 2020 and for the years ended 31 December 2018, 2019 and 2020, and the selected unaudited financial information as at 30 June 2021 and for the first six months ended 30 June 2021 and 2020 have been derived from the the Issuer's audited consolidated financial statements and reviewed consolidated interim financial statements, respectively. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Offer Supplement.

SM Prime Holdings, Inc. (the "Company") and its subsidiaries availed of the deferral of the application of the reporting reliefs issued and approved by SEC under Memorandum Circular (MC) No. 34-2020 in response to the COVID-19 pandemic in "Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A No. 2018-12-D, PFRS 15 Implementation Issues Affecting the Real Estate Industry" and application of "IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost)". Please refer to Note 3 to the interim condensed consolidated financial statements for the details of the impact of adoption of these financial reporting reliefs.

The Company and its subsidiaries adopted PFRS 16, Leases, using modified retrospective approach with the initial date of application of 1 January 2019. Amounts presented in the consolidated balance sheets, consolidated statements of income and consolidated statements of comprehensive income as at and for the year ended 31 December 2018 are based on PAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Please refer to Note 3 of the Company's 2019 audited consolidated financial statements, which are included elsewhere in the Prospectus, for the effect of the adoption of PFRS 16.

### CONSOLIDATED BALANCE SHEETS

|  | As at 31 December  |                    |                    | As at 30 June <sup>1</sup> |
|--|--------------------|--------------------|--------------------|----------------------------|
| (in ₱ thousands)   | 2018<br>Audited    | 2019<br>Audited    | 2020<br>Audited    | 2021<br>Unaudited          |
| <b>ASSETS</b>  |                    |                    |                    |                            |
| <b>Current Assets</b>  |                    |                    |                    |                            |
| Cash and cash equivalents  | 38,766,467         | 34,599,959         | 30,661,614         | 26,839,332                 |
| Receivables and contract assets  | 35,229,450         | 53,636,921         | 58,944,930         | 58,159,280                 |
| Real estate inventories  | 37,575,103         | 43,946,109         | 43,691,877         | 46,945,563                 |
| Equity instruments at fair value through other comprehensive income                          | 639,316            | 659,077            | 568,146            | 562,627                    |
| Derivative assets  | 432,898            | -                  | 2,747              | -                          |
| Prepaid expenses and other current assets  | 15,147,029         | 19,485,542         | 23,205,662         | 24,724,040                 |
| <b>Total Current Assets</b>  | <b>127,790,263</b> | <b>152,327,608</b> | <b>157,074,976</b> | <b>157,230,842</b>         |
| <b>Noncurrent Assets</b>   |                    |                    |                    |                            |
| Equity instruments at fair value through other comprehensive income – net of current portion | 22,892,937         | 20,420,959         | 16,131,568         | 16,493,970                 |
| Property and equipment – net   | 1,419,111          | 1,383,320          | 1,311,208          | 1,291,706                  |
| Investment properties – net  | 343,418,862        | 410,639,578        | 436,159,081        | 454,120,025                |

<sup>1</sup> The interim consolidated balance sheet as at 30 June 2021 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for six-month periods ended 30 June 2021 and 2020 have been reviewed by the Independent Auditors of the Issuer in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by Independent Auditor of the Entity*.

|  | As at 31 December |                 |                 | As at 30 June <sup>1</sup> |
|--|-------------------|-----------------|-----------------|----------------------------|
| (in ₱ thousands)                             | 2018<br>Audited   | 2019<br>Audited | 2020<br>Audited | 2021<br>Unaudited          |
| Derivative assets – net of current portion   | 420,035           | 826,315         | -               | 22,481                     |
| Deferred tax assets – net                    | 1,083,670         | 903,845         | 831,546         | 902,212                    |
| Investments in associates and joint ventures | 26,199,380        | 27,214,398      | 27,735,239      | 28,480,683                 |
| Other noncurrent assets                      | 80,910,060        | 53,563,651      | 83,115,307      | 90,871,892                 |
| Total Noncurrent Assets                      | 476,344,055       | 514,952,066     | 565,283,949     | 592,182,969                |
| Total Assets                                 | 604,134,318       | 667,279,674     | 722,358,925     | 749,413,811                |

|   | As at 31 December |                 |                 | As at 30 June <sup>2</sup> |
|---|-------------------|-----------------|-----------------|----------------------------|
| (in ₱ thousands)  | 2018<br>Audited   | 2019<br>Audited | 2020<br>Audited | 2021<br>Unaudited          |
| <b>LIABILITIES AND EQUITY</b>   |                   |                 |                 |                            |
| <b>Current Liabilities</b>  |                   |                 |                 |                            |
| Loans payable   | 39,400            | 100,000         | 10,900,000      | 4,442,567                  |
| Accounts payable and other current liabilities  | 61,767,086        | 70,125,750      | 81,033,985      | 79,618,984                 |
| Current portion of long-term debt   | 25,089,624        | 23,521,373      | 42,738,350      | 27,959,206                 |
| Derivative liabilities  | -                 | -               | 357,662         | 356,549                    |
| Income tax payable  | 1,383,742         | 1,509,657       | 957,906         | 583,679                    |
| Total Current Liabilities   | 88,279,852        | 95,256,780      | 135,987,903     | 112,960,985                |
| <b>Noncurrent Liabilities</b>   |                   |                 |                 |                            |
| Long-term debt – net of current portion   | 197,682,262       | 214,333,050     | 218,830,647     | 254,408,917                |
| Tenants' and customers' deposits – net of current portion                                     | 18,676,022        | 21,646,217      | 21,331,869      | 21,553,885                 |
| Liability for purchased land – net of current portion   | 6,044,220         | 4,214,234       | 1,251,227       | 2,177,918                  |
| Deferred tax liabilities – net  | 3,527,501         | 4,179,154       | 6,786,018       | 8,482,776                  |
| Derivative liabilities – net of current portion   | 335,008           | 711,617         | 2,445,735       | 1,880,115                  |
| Other noncurrent liabilities  | 10,511,491        | 24,422,348      | 25,007,898      | 27,005,874                 |
| Total Noncurrent Liabilities  | 236,776,504       | 269,506,620     | 275,653,394     | 315,509,485                |
| Total Liabilities   | 325,056,356       | 364,763,400     | 411,641,297     | 428,470,470                |
| <b>Equity Attributable to Equity Holders of the Parent</b>                                    |                   |                 |                 |                            |
| Capital stock   | 33,166,300        | 33,166,300      | 33,166,300      | 33,166,300                 |
| Additional paid-in capital – net  | 39,953,218        | 38,007,668      | 38,022,913      | 38,022,913                 |
| Cumulative translation adjustment   | 1,955,999         | 1,344,274       | 1,524,439       | 1,993,712                  |
| Net fair value changes of equity instruments at fair value through other comprehensive income | 19,084,597        | 17,840,990      | 13,460,669      | 13,817,551                 |
| Net fair value changes on cash flow hedges  | (842,098)         | (1,328,167)     | (1,769,030)     | (1,524,065)                |

<sup>2</sup> The interim consolidated balance sheet as at 30 June 2021 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for six-month periods ended 30 June 2021 and 2020 have been reviewed by the Independent Auditors of the Issuer in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by Independent Auditor of the Entity*.

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Remeasurement loss on defined benefit obligation          | (348,480)   | (913,390)   | (587,796)   | (626,751)   |
| Retained earnings:  |             |             |             |             |
| Appropriated  | 42,200,000  | 42,200,000  | 42,200,000  | 42,200,000  |
| Unappropriated  | 143,118,153 | 173,583,191 | 186,251,267 | 195,529,956 |
| Treasury stock  | (2,984,695) | (2,984,695) | (2,984,695) | (2,984,695) |
| Total Equity Attributable to Equity Holders of the Parent | 275,302,994 | 300,916,171 | 309,284,067 | 319,594,921 |
| <b>Non-controlling Interests</b>                          | 3,774,968   | 1,600,103   | 1,433,561   | 1,348,420   |
| Total Equity  | 279,077,962 | 302,516,274 | 310,717,628 | 320,943,341 |
| Total Liabilities and Equity                              | 604,134,318 | 667,279,674 | 722,358,925 | 749,413,811 |

## CONSOLIDATED STATEMENTS OF INCOME

| <i>(in ₱ thousands)</i>         | For the years ended 31 December |                 |                 | For the six months ended 30 June <sup>3</sup> |                   |
|---------------------------------|---------------------------------|-----------------|-----------------|---|-------------------|
|                                 | 2018<br>Audited                 | 2019<br>Audited | 2020<br>Audited | 2020<br>Unaudited                             | 2021<br>Unaudited |
| <b>Revenue</b>                  |                                 |                 |                 |   |                   |
| Rent                            | 57,162,796                      | 61,759,921      | 32,013,024      | 18,304,517                                    | 15,929,041        |
| Sales:                          |                                 |                 |                 |   |                   |
| Real estate                     | 35,872,552                      | 44,465,454      | 46,973,399      | 23,460,594                                    | 24,092,796        |
| Cinema and event ticket         | 5,218,434                       | 5,548,469       | 632,984         | 607,652                                       | 10,474            |
| Others                          | 5,826,783                       | 6,537,646       | 2,279,891       | 1,304,186                                     | 1,055,799         |
|                                 | 104,080,565                     | 118,311,490     | 81,899,298      | 43,676,949                                    | 41,088,110        |
| <b>Costs and Expenses</b>       | 55,753,334                      | 61,619,162      | 52,825,112      | 27,328,209                                    | 25,015,856        |
| <b>Income from Operations</b>   | 48,327,231                      | 56,692,328      | 29,074,186      | 16,348,740                                    | 16,072,254        |
| <b>Other Income (Charges)</b>   |                                 |                 |                 |   |                   |
| Interest expense                | (7,540,045)                     | (8,832,770)     | (8,596,750)     | (3,712,067)                                   | (3,586,719)       |
| Interest and dividend income    | 1,828,776                       | 1,746,406       | 1,207,227       | 732,438                                       | 439,140           |
| Others – net                    | (649,787)                       | (443,970)       | 779,078         | 380,172                                       | 1,508,201         |
|                                 | (6,361,056)                     | (7,530,334)     | (6,610,445)     | (2,599,457)                                   | (1,639,378)       |
| <b>Income Before Income Tax</b> | 41,966,175                      | 49,161,994      | 22,463,741      | 13,749,283                                    | 14,432,876        |
| <b>Provision for Income Tax</b> |                                 |                 |                 |   |                   |
| Current                         | 8,534,428                       | 9,282,069       | 1,761,051       | 1,194,387                                     | 1,198,190         |
| Deferred                        | 520,618                         | 1,091,252       | 2,562,953       | 2,026,325                                     | 1,545,589         |
|                                 | 9,055,046                       | 10,373,321      | 4,324,004       | 3,220,712                                     | 2,743,779         |
| <b>Net Income</b>               | 32,911,129                      | 38,788,673      | 18,139,737      | 10,528,571                                    | 11,689,097        |
| Attributable to:                |                                 |                 |                 |   |                   |
| Equity holders of the Parent    | 32,172,886                      | 38,085,601      | 18,006,512      | 10,432,887                                    | 11,644,915        |
| Non-controlling interests       | 738,243                         | 703,072         | 133,225         | 95,684  | 44,182            |
|                                 | 32,911,129                      | 38,788,673      | 18,139,737      | 10,528,571                                    | 11,689,097        |

<sup>3</sup> The interim consolidated balance sheet as at 30 June 2021 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for six-month periods ended 30 June 2021 and 2020 have been reviewed by the Independent Auditors of the Issuer in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by Independent Auditor of the Entity*.

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|                                  |        |        |        |        |        |
|----------------------------------|--------|--------|--------|--------|--------|
| Basic/Diluted earnings per share | ₱1.115 | ₱1.320 | ₱0.624 | ₱0.362 | ₱0.404 |
|----------------------------------|--------|--------|--------|--------|--------|

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## SUMMARY OF THE OFFER

*This document constitutes the Offer Supplement relating to the offer described herein (the "Offer"). Terms used herein shall be deemed to be defined as set forth in the Prospectus dated 28 February 2020 (the "Prospectus"). A copy of the Prospectus is available at [https://www.smprime.com/corporate disclosures](https://www.smprime.com/corporate-disclosures). This Offer Supplement contains the final terms of this Offer and must be read in conjunction with the Prospectus. Full information on the Issuer and this offering is only available on the basis of the combination of this Offer Supplement and the Prospectus. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement. In case of conflict between the Prospectus and this Offer Supplement, this Offer Supplement shall prevail in respect of the Series O Bonds.*

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

|   |   |
|---|---|
| <b>Issuer</b>                             | SM Prime Holdings, Inc.   |
| <b>Issue</b>                              | Fixed Rate Bonds constituting the direct, unconditional, and unsubordinated obligations of SM Prime Holdings, Inc. (the "Bonds"), which is the third tranche of debt securities to be issued from the Company's ₱100,000,000,000 Debt Securities Program registered with the SEC under shelf registration pursuant to SEC MSRD Order No. 6 Series of 2020 with a remaining unissued amount of ₱75,000,000,000 as of the date of this Offer Supplement. After the Offer, assuming that the Over-Subscription Option is fully exercised, the remaining unissued amount under shelf registration shall be ₱65,000,000,000. |
| <b>Offer Size</b>                         | Five Billion Pesos (₱5,000,000,000), with an option to increase the issue size by up to Five Billion Pesos (₱5,000,000,000) in the event of oversubscription  |
| <b>Manner of Distribution</b>             | Public offering   |
| <b>Use of Proceeds</b>                    | To fund capital expenditure requirements (see "Use of Proceeds")  |
| <b>Issue Price</b>                        | At par (or 100% of face value)  |
| <b>Form and Denomination of the Bonds</b> | The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00 each, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market   |
| <b>Offer Period</b>                       | The offer of the Bonds shall commence at 9:00 am on 2 November 2021 and end at 5:00 pm on 8 November 2021   |
| <b>Issue Date</b>                         | 15 November 2021  |
| <b>Maturity Date</b>                      | Series O Bonds : 7 years from Issue Date  |
| <b>Interest Rate</b>                      | Series O Bonds : 5.0994% per annum  |
| <b>Interest Computation &amp; Payment</b> | Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears commencing on 15 May 2022 and on 15 May and 15 November of each year.  |
| <b>Optional Redemption</b>                | Prior to the Maturity Date of the Series O Bonds, the Issuer shall have   |

a one-time option, but shall not be obligated, to redeem in whole, and not a part only, the Series O Bonds in accordance with the following schedule:

| <b>Optional Redemption Dates</b>   | <b>Optional Redemption Price</b> |
|--|----------------------------------|
| <b>Tenth (10<sup>th</sup>) and eleventh (11<sup>th</sup>) Interest Payment Dates</b>     | 101.0%                           |
| <b>Twelfth (12<sup>th</sup>) and thirteenth (13<sup>th</sup>) Interest Payment Dates</b> | 100.5%                           |

**Final Redemption** Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds will be redeemed at par or 100% of face value on the Maturity Date.

**Bond Rating** The Bonds are rated PRS Aaa with Stable Outlook by the Philippine Rating Services Corporation ("PhilRatings").

**Trustee** Philippine National Bank Trust Banking Group

**Registrar & Paying Agent** Philippine Depository & Trust Corp.

**Taxation of Bond Interest** Interest income derived by Philippine citizens or resident foreign individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 25% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

Bondholders who are exempt from or are not subject to final withholding tax on interest income or are covered by a lower final withholding tax rate by virtue of a tax treaty may claim such exemption or lower rate, as the case may be, by submitting the necessary documents as required by the Bureau of Internal Revenue and the Issuer.

**Ranking** The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by law.

**Listing** The Bonds are intended to be listed at the PDEX, or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volume occurs.

**Governing Law** Philippine Law

## DESCRIPTION OF THE BONDS

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

The Bonds covered by this Offer Supplement and described in this Offer Supplement are offered by the Company as the third tranche of the Fixed Rate Bonds under its ₱100,000,000,000 Debt Securities Shelf Registration Program (the "Debt Securities Program").

A registration statement filed by the Company covering the Debt Securities Program was rendered effective by the Securities and Exchange Commission ("SEC") by its order and certificate of permit to offer securities for sale for the first tranche of the Fixed Rate Bonds issued on 28 February 2020 (the "Shelf Registration"). The first tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱15,000,000,000 and was issued on 25 March 2020 under the Prospectus dated 28 February 2020. The second tranche of the Fixed Rate Bonds had an aggregate amount of ₱5,000,000,000 with a fully exercised over-subscription option of ₱5,000,000,000 and was issued on 5 February 2021 under an offer supplement dated 22 January 2021.

The SEC is expected to issue a certificate of permit to offer securities for sale for the third tranche of the Fixed Rate Bonds. Pursuant to such confirmation and certificate of permit to offer securities for sale, the third tranche of the Fixed Rate Bonds will be issued with an aggregate principal amount of ₱5,000,000,000 with an over-subscription of up to ₱5,000,000,000.

The Bonds shall be constituted by a Trust Indenture Agreement executed on 27 October 2021 (the "Trust Agreement") entered into between the Issuer and Philippine National Bank Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on 27 October 2021 (the "Registry and Paying Agency Agreement") in relation to the Bonds between the Issuer and Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the relevant Maturity Dates. See "Description of the Bonds — Redemption and Purchase".

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

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

## **FORM, DENOMINATION AND TITLE**

### **Form and Denomination**

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

### **Title**

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

### **BOND RATING**

The Bonds have been rated PRS Aaa, with Stable Outlook by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. A Stable Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The rating was arrived at after considering the following factors: SM Prime's healthy liquidity, sound capitalization, well-experienced shareholders and management, and strong brand equity which is expected to survive the challenges brought about by the prolonged pandemic, and to provide a solid take off point for growth once the domestic economy starts to recover.

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

### **TRANSFER OF THE BONDS**

#### **Register of Bondholders**

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

#### **Transfers; Tax Status**

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds,

including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

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

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

### **Secondary Trading of the Bonds**

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

### **RANKING**

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

### **INTEREST**

#### **Interest Payment Dates**

The Bonds bear interest on its principal amount from and including Issue Date at the rate of 5.0994% p.a., payable semi-annually in arrears starting on 15 May 2022 for the first Interest Payment Date, and on 15 November and 15 May of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The Final Interest Rate for the Bonds was based on the sum of a) the simple average of the 7-year PHP BVAL reference rate at 5:00 p.m. for three (3) consecutive Business Days preceding and inclusive of the Interest Rate Setting Date and b) the Final Spread.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the "Record Date"),

which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

**Interest Accrual**

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

**Determination of Interest Amount**

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

**REDEMPTION AND PURCHASE**

**Final Redemption**

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

**Redemption for Taxation Reasons**

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

**Optional Redemption**

Prior to the Maturity Date of the Bonds, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, the Bonds, in accordance with the schedule set forth below.

| <b>Bonds</b>          | <b>Optional Redemption Dates</b>  | <b>Optional Redemption Price</b> |
|-----------------------|---|----------------------------------|
| <b>Series O Bonds</b> | Tenth (10 <sup>th</sup> ) and eleventh (11 <sup>th</sup> ) Interest Payment Dates     | 101.0%                           |
|                       | Twelfth (12 <sup>th</sup> ) and thirteenth (13 <sup>th</sup> ) Interest Payment Dates | 100.5%                           |

The Issuer shall give no less than thirty (30) nor more than sixty (60) calendar days’ prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Interest Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemption shall be calculated as the sum of (i) the relevant Optional Redemption Price applied to the principal amount of the outstanding Bonds being redeemed; and (ii) accrued interest on the Bonds as of the relevant Optional Redemption Date.

## **Purchase and Cancellation**

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

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

## **Change in Law or Circumstance**

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

- (a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations; or
- (b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or
- (c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

## **Payments**

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

## **Payment of Additional Amounts - Taxation**

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 25% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
- (i) a current and valid Bureau of Internal Revenue-certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate;
  - (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax;
  - (iii) for those who are claiming benefits under tax treaties, duly submitted BIR Form 1901 or Application Form for Treaty Purposes and apostilled/consularized Tax Residency Certificate duly issued by the foreign tax authority as required under BIR Revenue Memorandum Order No. 14-2021; and
  - (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities, e.g. BIR Revenue Memorandum Order No. 14-2021, which for purposes of claiming tax treaty withholding rate benefits, shall include, among others, evidence of the applicability of a tax treaty and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;
- b) Gross Receipts Tax under Section 121 of the Tax Code;
- c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

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

## **FINANCIAL RATIOS**

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

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

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

## **NEGATIVE PLEDGE**

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

- (i) the Issuer will not create or permit to subsist any lien upon the whole or any part of its undertaking, assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness;
- (ii) the Issuer shall procure that its Material Subsidiaries will not create or permit to subsist any lien upon the whole or any part of any Material Subsidiary's undertaking, assets or revenues present or future to secure any Public Debt or any guarantee of or indemnity in respect of any Public Debt;
- (iii) the Issuer will procure that no other Person creates or permits to subsist any lien or gives any guarantee of, or indemnity upon the whole or any part of the undertaking, assets or revenues present or future of that other Person to secure any Public Debt of the Issuer, or any Material Subsidiary or to secure any guarantee of or indemnity in respect of the Public Debt of the Issuer or any Material Subsidiary; and
- (iv) the Issuer will procure that no Person gives any guarantee of, or indemnity in respect of, the Public Debt of the Issuer or any Material Subsidiary

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

## **EVENTS AND CONSEQUENCES OF DEFAULT**

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

- (a) The Issuer shall fail to pay when due, the principal of or interest on or any amount payable under the Bonds, and such failure to pay is not remedied within ten (10) Business Days from due date thereof; or
- (b) The Issuer shall default in the due performance, observance of or compliance with any other covenant contained in the Trust Agreement or the Bonds, and such default shall remain unremedied for a period of thirty (30) days after the Issuer shall have received written notice thereof from the Trustee; or
- (c) Any statement, representation, or warranty made by the Issuer in the Trust Agreement or in any other document delivered or made pursuant thereto shall prove to be incorrect

or untrue in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for more than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect; or

- (d) The Issuer or any of its Subsidiaries fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other obligation, or commits a breach or violation of any of the terms, conditions or stipulations, of any agreement, contract or document relating to any of their respective Indebtedness, including without limitation any credit extended by Bondholders or any third Person or Persons and under the terms of which such agreement, contract or document, shall constitute an event of default thereunder, but allowing for all applicable grace periods thereunder; *provided*, however, that no Event of Default will occur under this paragraph unless the aggregate amount of Indebtedness in respect of which one or more of the events above-mentioned has or have occurred equals or is in excess of fifteen percent (15%) of the Fair Market Value of Consolidated Assets as determined and recognized in the Issuer's latest audited consolidated financial statements; or
- (e) The Issuer or any of its Subsidiaries shall:
  - (i) become insolvent or unable to pay its Indebtedness as they mature; or
  - (ii) stop, suspend all or a material part of (or a particular type of) its Indebtedness; or
  - (iii) propose or make any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its Indebtedness, unless such deferral, rescheduling or other readjustment is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such deferral, rescheduling or other readjustment and the reasons therefor to the Bondholders through the Trustee; or
  - (iv) propose or make a general assignment or an arrangement or composition with or for the benefit of relevant creditors in respect of any of such Indebtedness, unless such general assignment, arrangement or composition is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such general assignment, arrangement or composition and the reasons therefor to the Bondholders through the Trustee; or
  - (v) take advantage of insolvency, moratorium, corporate rehabilitation or other laws for the relief of debtors; or
  - (vi) there shall be commenced against the Issuer or any Subsidiary any proceeding under such laws, or any judgment or order is entered by a court of competent jurisdiction for the appointment of a receiver, trustee or the like to take charge of all or substantially all of the assets of the Issuer, and such proceedings shall not have been discharged or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances; or
- (f) Any act or deed or judicial or administrative proceeding in the nature of an expropriation, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of or with respect to the whole or a substantial portion of the business and operations, capital stock, property, or assets of the Issuer or any of its Material Subsidiary, shall be undertaken or instituted by any governmental authority, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or the Subsidiary concerned; or

- (g) An attachment or garnishment of or levy upon a material part of the properties of the Issuer or any of its Material Subsidiary is made and is not discharged, stayed or fully bonded, within sixty (60) days (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances); or
- (h) Any of the Trust Agreement or the Bonds or any material portion thereof is declared to be illegal or unenforceable, unless such illegality or enforceability is remedied within thirty (30) days of the occurrence or declaration of the illegality or unenforceability, as the case may be; or
- (i) Any of the concessions, permits, rights, franchises, or privileges required for the conduct of the business and operations of the Issuer or any Subsidiary shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented in such manner as shall have a Material Adverse Effect, and such continues unremedied for a period of sixty (60) days from the date of such revocation, cancellation, termination or curtailment; or
- (j) A final judgment, decree or order has been entered against the Issuer or any Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of Five Billion Pesos (₱5,000,000,000.00), and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or
- (k) Any lien created or assumed by the Issuer or any Subsidiary becomes unenforceable and any step is taken to enforce it (including the taking possession or the appointment of a receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within sixty (60) days of such steps being so taken unless and for so long as the Bondholders are satisfied that it is being contested in good faith with due diligence and by appropriate proceedings; or
- (l) The Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer under the Trust Agreement or the Bonds; or
- (m) Any event occurs which under the law has an analogous effect to any of the events referred to in the foregoing paragraphs of this section.

### **Notice of Default**

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

### **Penalty Interest**

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

## **Payment in the Event of Default**

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

## **Application of Payments**

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

## **Prescription**

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

## **Remedies**

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

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

## **Ability to File Suit**

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon

the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

### **Waiver of Default by the Bondholders**

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

### **SUBSTITUTION**

Substitution of the Bonds is not contemplated.

### **TRUSTEE; NOTICES**

#### **Notice to the Trustee**

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

|                 |   |
|-----------------|---|
| To the Trustee: | Philippine National Bank Trust Banking Group  |
| Attention:      | Joy Jasmin Santos / Maria Victoria Mendoza  |
| Address:        | 3 <sup>rd</sup> Floor, PNB Financial Center<br>Diosdado Macapagal Boulevard, Pasay City |
| Subject:        | SM Prime Series O Bonds   |
| Facsimile:      | +63 2 8526 3379   |

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

#### **Notice to the Bondholders**

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

mail; (ii) fifteen (15) days from mailing if transmitted by surface mail; (iii) on date of publication, or; (iv) on date of delivery, for personal delivery.

### **Binding and Conclusive Nature**

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

### **Duties and Responsibilities of the Trustee**

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement and inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns or is informed of such events. The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Bonds. The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the terms and conditions of this Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.
- (c) None of the provisions contained in the Trust Agreement, the Prospectus, or this Offer Supplement shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

### **Resignation and Change of Trustee**

- (a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.
- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six (6) months (the "*bona fide*

Bondholder”) may, on behalf of himself and all other Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee. Subject to the provision of Subsection (e) below, such a successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.

- (c) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee. Subject to the provisions of Subsection (e) below, such successor trustee should possess all the qualifications required under pertinent laws; otherwise, the incumbent trustee shall continue to act as such until a successor trustee is duly appointed.
- (d) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions.
- (e) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of the: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under Subsection (a) above and Section 8.5 (a) of the Trust Agreement (the “Resignation Effective Date”) provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the “Holdover Period”), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Issuer provided further that the resigning Trustee shall be entitled to the payment of the fee stipulated in Section 2.2 of the Trust Agreement during the Holdover Period.

### **Successor Trustee**

- (a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, the Trustee’s liabilities and obligations shall immediately cease.
- (b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the

trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

### **Reports to the Bondholders**

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

- (i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
- (ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

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

### **Inspection of Documents**

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

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

### **MEETINGS OF BONDHOLDERS**

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

### **Notice of Meetings**

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

billing statement.

### **Failure of the Trustee to Call a Meeting**

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

### **Quorum**

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

### **Procedure for Meetings**

- (a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

### **Voting Rights**

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

### **Voting Requirement**

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

## **Role of the Trustee in Meetings of the Bondholders**

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

## **Amendments**

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

- (1) reduce the amount of Bondholder that must consent to an amendment or waiver;
- (2) reduce the rate of or extend the time for payment of interest on any Bond;
- (3) reduce the principal of or extend the Maturity Date of any Bond;
- (4) impair the right of any Bondholder to receive payment of principal of and interest on such Holder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;
- (6) make any Bond payable in money other than that stated in the Bond;
- (7) subordinate the Bonds to any other obligation of SM Prime;
- (8) release any Bond interest that may have been granted in favor of the Holders;
- (9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- (10) make any change or waiver of the aforementioned Condition.

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

## **Evidence Supporting the Action of the Bondholders**

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

**Non-Reliance**

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

**GOVERNING LAW**

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

## USE OF PROCEEDS

The net proceeds from the issue of the Bonds, without the Over-subscription Option (after deduction of commissions and expenses) is approximately ₱4,935.20 million and is presently intended to be used by the Issuer to fund capital expenditure requirements. Assuming the Over-subscription Option of up to ₱5,000.00 million is fully exercised, the Company expects total net proceeds of approximately ₱9,880.20 million after deducting fees, commissions and expenses.

Net proceeds from this Offer are estimated to be at least as follows:

| <b>For a ₱5.0 billion Issue Size</b>                             |            | <b>Total</b>   |
|--|------------|----------------|
| Estimated proceeds from the sale of Bonds                        |            | ₱5,000,000,000 |
| Less: Estimated expenses   |            |                |
| Documentary Stamp Tax  | 37,500,000 |                |
| SEC Registration   |            |                |
| SEC Registration Fee and Legal                                   | 2,572,040  |                |
| Research   |            |                |
| SEC Publication Fee  |            |                |
| Underwriting and Other Professional Fees                         | 18,300,000 |                |
| Audit Fees   | 3,850,000  |                |
| Rating Fee   | 1,900,000  |                |
| Listing Application Fee  | 150,000    |                |
| Trustee Fees   | 150,000    |                |
| Paying Agency and Registry Fees                                  | 225,000    |                |
| Miscellaneous fees   | 150,000    | 64,797,040     |
| Estimated net proceeds for ₱5.0 billion Issue                    |            | ₱4,935,202,960 |
| <b>For the ₱5.0 billion Oversubscription Option</b>              |            |                |
| Estimated proceeds from the sale of Bonds                        |            | ₱5,000,000,000 |
| Less: Estimated expenses   |            |                |
| Documentary Stamp Tax  | 37,500,000 |                |
| Underwriting and Other Professional Fees                         | 17,500,000 | 55,000,000     |
| Estimated net proceeds for ₱5.0 billion Over-Subscription Option |            | ₱4,945,000,000 |

Total Estimated Net Proceeds --- ₱9,880,202,960

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

1. The Issuer will be charged the first year Annual Listing Maintenance Fee in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱150,000 per annum; and
3. After the Issue Date, a Paying Agency fee amounting to ₱245,500 is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.

The net proceeds of the Offer of ₱4,935.20 million, assuming an Issue Size of ₱5.0 billion, shall be used primarily to finance capital expenditures for new malls, mall expansions and other projects as set out below.

| <i>(Amounts in million ₱)</i>        | Amount and Schedule of Disbursement |            | Remaining Amount needed to complete the project | Launch date | Target completion date | Percentage completion <sup>1</sup> |
|--------------------------------------|-------------------------------------|------------|---|-------------|------------------------|------------------------------------|
|                                      | 2022                                | 2023       |   |             |                        |                                    |
| <b>New Malls</b>                     | <b>951</b>                          | -          | <b>936</b>                                      |             |                        |                                    |
| SM Center San Pedro                  | 274                                 | -          | 90  | 2023        | 2023                   | 0%                                 |
| SM City Deparo                       | 677                                 | -          | 846   | 2023        | 2023                   | 0%                                 |
| <b>Mall Expansions/Others</b>        | <b>3,220</b>                        | <b>764</b> | <b>2,882</b>                                    |             |                        |                                    |
| SM City Rosales Expansion            | 288                                 | -          | -   | 2022        | 2022                   | 0%                                 |
| SM City Pampanga Expansion – Phase 2 | 969                                 | 565        | -   | 2023        | 2023                   | 0%                                 |
| SM City Davao Expansion              | 775                                 | -          | 1,551   | 2023        | 2023                   | 0%                                 |
| SM East Ortigas – Carpark Building   | 237                                 | -          | 296   | 2023        | 2023                   | 0%                                 |
| SM City Cebu Northwing Expansion     | 550                                 | -          | 733   | 2023        | 2023                   | 0%                                 |
| SM City Bicutan Expansion            | 401                                 | 199        | 302   | 2023        | 2023                   | 0%                                 |
|                                      | <b>4,171</b>                        | <b>764</b> | <b>3,818</b>                                    |             |                        |                                    |

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

If the ₱5.0 billion Over-subscription Option is fully exercised, the additional net proceeds of ₱4,945.00 million from the Over-subscription Option shall be used to finance the Issuer's commercial and hotel projects.

| <i>(Amounts in million ₱)</i>                 | Amount and Schedule of Disbursement |              |            | Remaining Amount needed to complete the project | Launch date | Target completion date | Percentage completion <sup>1</sup> |
|---|-------------------------------------|--------------|------------|---|-------------|------------------------|------------------------------------|
|   | 2021                                | 2022         | 2023       |   |             |                        |                                    |
| <b>Offices/Others</b>                         | <b>747</b>                          | <b>3,194</b> | -          | <b>3,999</b>                                    |             |                        |                                    |
| SM Mall of Asia – IKEA                        | 49                                  | -            | -          | -   | 2021        | 2021                   | 80%                                |
| SM City Cauayan Phase 2 – Roof Deck / Parking | -                                   | 203          | -          | -   | 2022        | 2022                   | 0%                                 |
| SM Mall of Asia Expansion-Phase 5             | 698                                 | 266          | -          | -   | 2022        | 2022                   | 79%                                |
| NU Bacolod                                    | -                                   | 123          | -          | 184   | 2023        | 2023                   | 0%                                 |
| NU Clark Skyline                              | -                                   | 143          | -          | 215   | 2023        | 2023                   | 0%                                 |
| SM City Iloilo – Strata Tower 1               | -                                   | 356          | -          | 445   | 2023        | 2023                   | 0%                                 |
| Six E-Com Center                              | -                                   | 2,103        | -          | 3,155   | 2024        | 2025                   | 0%                                 |
| <b>Hotels</b>                                 | -                                   | <b>833</b>   | <b>171</b> | <b>2,146</b>                                    |             |                        |                                    |
| SM Hotel Sta. Rosa                            | -                                   | 251          | 171        | 428   | 2023        | 2024                   | 0%                                 |
| SM Hotel Cauayan                              | -                                   | 131          | -          | 304   | 2023        | 2024                   | 0%                                 |
| SM Hotel Baguio                               | -                                   | 322          | -          | 1,119   | 2024        | 2025                   | 0%                                 |
| SM Hotel Dasmariñas                           | -                                   | 129          | -          | 295   | 2024        | 2024                   | 0%                                 |
|   | <b>747</b>                          | <b>4,027</b> | <b>171</b> | <b>6,145</b>                                    |             |                        |                                    |

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

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

## DESCRIPTION OF THE PROJECTS

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

For the last quarter of 2021, SM Prime plans to open a mall expansion in SM Mall of Asia (IKEA) with an additional total gross floor area of more than 85,000 square meters.

For 2022, SM Prime plans to open mall expansions in SM City Rosales, SM Mall of Asia and SM City

Cauayan with an additional gross floor area of approximately 40,000 square meters.

For 2023, SM Prime is slated to open two new malls in the Philippines which are located in San Pedro, Laguna and Deparo, Caloocan with a total gross floor area of more than 67,000 square meters and two new hotels located in Sta. Rosa, Laguna and Cauayan, Isabela.

SM Prime also plans to open mall expansions in SM City Pampanga, SM City Davao, SM East Ortigas, SM City Cebu and SM City Bicutan with an additional gross floor area of more than 208,000 square meters.

The Company is also set to open expansions for its office in tower in Iloilo and two NU Branches located in Bacolod and Clark, Pampanga with an additional gross floor area of approximately 53,000 square meters.

For 2024, SM Prime is set to open Six E-Com Center located in MOA Complex, Pasay City and two new hotels located in Baguio and Dasmaringas.

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

The net proceeds from the Offer will not be used to reimburse any officer, director, employee or shareholder for services rendered, assets previously transferred, money loaned or advanced or otherwise.

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

## PLAN OF DISTRIBUTION

BDO Capital & Investment Corporation, China Bank Capital Corporation, BPI Capital Corporation, East West Banking Corporation, First Metro Investment Corporation, RCBC Capital Corporation and SB Capital Investment Corporation pursuant to an Issue Management and Underwriting Agreement with SM Prime executed on 27 October 2021 (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite ₱5,000,000,000 on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

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

| <b>Joint Lead Underwriters</b>       | <b>Amount</b>     |
|--------------------------------------|-------------------|
| BDO Capital & Investment Corporation | ₱937,500,000.00   |
| China Bank Capital Corporation       | ₱937,500,000.00   |
| BPI Capital Corporation              | ₱500,000,000.00   |
| East West Banking Corporation        | ₱625,000,000.00   |
| First Metro Investment Corporation   | ₱500,000,000.00   |
| RCBC Capital Corporation             | ₱750,000,000.00   |
| SB Capital Investment Corporation    | ₱750,000,000.00   |
| Total                                | ₱5,000,000,000.00 |

There is no allocation of the Oversubscription Option among the Joint Lead Underwriters. The Company and the Joint Lead Underwriters have the right but not the obligation to exercise such Oversubscription option.

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

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

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

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

China Bank Capital, a wholly-owned investment banking subsidiary of China Banking Corporation, was registered and licensed as an investment house in 2015 as a result of the spin-off of China Banking Corporation's Investment Banking Group. The firm offers a full suite of investment banking solutions, which include arranging and managing, and underwriting bond offerings, corporate notes issuances, initial public offerings and follow-on offerings of common and preferred shares, private placements of securities, structured loans, project finance, real estate investment trusts, and asset securitizations. China Bank Capital also provides financial advisory services, such as structuring, valuation, and execution of M&A deals, joint ventures and other corporate transactions.

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

East West Banking Corporation is a subsidiary of Filinvest Development Corporation. East West Bank is a universal bank providing a wide range of banking services to retail, commercial, and corporate clients. It was established as a commercial bank in July 1994 and received its universal banking license from the BSP in July 2012. East West Bank is licensed by the SEC to engage in the underwriting or distribution of securities to the public.

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

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 46 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of YGC, one of the country's largest fully integrated financial services conglomerates.

SB Capital Investment Corporation is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital Investment Corporation provides a wide range of investment banking services including underwriting of debt and equity securities, project finance, loan syndications, mergers and acquisitions and other corporate/financial advisory services. SB Capital Investment Corporation is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major debt and equity issues.

## **SALE AND DISTRIBUTION**

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

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

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

## **OFFER PERIOD**

The Offer Period for the Bonds shall commence at 9:00 am of 2 November 2021, and end at 5:00 pm of 8 November 2021

## **APPLICATION TO PURCHASE**

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

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

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

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

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

## **MINIMUM PURCHASE**

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

## **ALLOTMENT OF THE BONDS**

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

## **ACCEPTANCE OF APPLICATIONS**

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

## **REFUNDS**

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

## **PAYMENTS**

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

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

## **PURCHASE AND CANCELLATION**

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

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

## **SECONDARY MARKET**

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

## **REGISTRY OF BONDHOLDERS**

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

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

## CAPITALIZATION AND INDEBTEDNESS

As at 30 June 2021, the authorized capital stock of the Issuer was ₱40.0 billion divided into 40 billion common shares each with ₱1.0 par value per share, and its issued capital stock was ₱33.17 billion consisting of 33.166 billion common shares of ₱1.0 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Issuer as at 30 June 2021 and as adjusted to give effect to the issue of the Bonds (assuming the Oversubscription Option is not exercised). This table should be read in conjunction with the Issuer's unaudited interim condensed consolidated financial statements as at 30 June 2021 and notes thereto, included elsewhere in this Offer Supplement.

|   | <b>As at 30 June 2021</b>    |                                |
|---|------------------------------|--------------------------------|
|   | <b>Actual</b><br>(Unaudited) | <b>Adjusted</b><br>(Unaudited) |
| <i>(in ₱ millions)</i>  |                              |                                |
| <b>Short-term debt</b>  |                              |                                |
| Loans payable   | 4,443                        | 4,443                          |
| Current portion of long-term debt   | 27,959                       | 27,959                         |
| <b>Total short-term debt</b>  | <b>32,402</b>                | <b>32,402</b>                  |
| <b>Long-term debt - net of current portion</b>  |                              |                                |
| Banks and other financial institutions  | 254,409                      | 254,409                        |
| The Bonds to be issued  | -                            | 5,000                          |
| <b>Total long-term debt - net of current portion</b>  | <b>254,409</b>               | <b>259,409</b>                 |
| <b>Equity</b>   |                              |                                |
| Equity Attributable to Equity Holders of the Parent:  |                              |                                |
| Capital stock   | 33,166                       | 33,166                         |
| Additional paid-in capital - net  | 38,023                       | 38,023                         |
| Cumulative translation adjustment   | 1,994                        | 1,994                          |
| Net fair value changes of equity instruments at fair value through other comprehensive income | 13,818                       | 13,818                         |
| Net fair value changes on cash flow hedges  | (1,524)                      | (1,524)                        |
| Remeasurement loss on defined benefit obligation  | (627)                        | (627)                          |
| Retained earnings   |                              |                                |
| Appropriated  | 42,200                       | 42,200                         |
| Unappropriated  | 195,530                      | 195,530                        |
| Treasury stock  | (2,985)                      | (2,985)                        |
| <b>Total Equity Attributable to Equity Holders of the Parent</b>                              | <b>319,595</b>               | <b>319,595</b>                 |
| <b>Total capitalization</b>   | <b>606,406</b>               | <b>611,406</b>                 |

Notes:

- (1) Adjusted amount as at 30 June 2021 includes gross proceeds of ₱5.0 billion principal amount of the Bonds offered hereunder.
- (2) Total capitalization is the sum of short-term debt, long-term debt and equity.

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

*Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, (ii) the audited consolidated financial statements as at 31 December 2020, 2019 and 2018 and for the years ended 31 December 2017, 2018, 2019, and 2020 and the notes thereto, and (iii) the unaudited interim condensed consolidated financial statements as at 30 June 2021 and for the six-month periods ended 30 June 2021 and 2020 and the notes thereto.*

### **Overview**

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

As at 30 June 2021, SM Prime is 49.70% and 25.85% directly-owned by SMIC and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

### **Basis of Preparation**

#### Basis of Preparation

The accompanying interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and equity instruments at fair value through other comprehensive income (FVOCI) which have been measured at fair value.

The interim condensed consolidated financial statements have been prepared under the going concern assumption. The Company believes that its business would remain relevant despite the challenges posed by the Coronavirus disease (COVID-19) pandemic. While the pandemic may adversely impact the short-term business results, long-term prospects remain attractive. The Company maintains a conservative balance sheet and is confident it would be able to navigate through these challenges and take opportunities as they arise.

In December 2019, the Company acquired the remaining 49% stake in Supermalls Transport Services Inc. (STSI) for ₱25 million, increasing the total ownership of the Company to 100%. The total assets, total liabilities and total equity of STSI amounted to ₱97 million, ₱34 million and ₱63 million, respectively. In March 2017, the Company acquired 51% ownership in STSI for ₱26 million and accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

#### Statement of Compliance

The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*, as modified by the application of the reporting reliefs issued and approved by SEC under Memorandum Circular No. 34-2020 in response to the COVID-19 pandemic in "Assessing if the transaction price includes a significant financing component discussed in PIC Q&A No. 2018-12-D," PFRS 15 Implementation Issues Affecting the Real Estate Industry" and application of "IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost)".

On 8 July 2021, to assist real estate companies to finally adopt the above-mentioned PIC Q&A and

IFRIC pronouncement and enable them to fully comply with PFRS 15 and revert to full PFRS, the SEC issued SEC MC No. 8, series of 2021 amending the transition provision of the above PIC Q&A and IFRIC pronouncement, which would provide real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach when they apply the above provisions of the PIC Q&A and IFRIC pronouncement.

Please refer to Note 3 of the Company's unaudited interim condensed consolidated financial statements, included elsewhere in the Offer Supplement, for the details of the impact of adoption of the above financial reporting reliefs.

The interim condensed consolidated financial statements are presented in Philippine peso, which is the 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.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting 1 January 2021:

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2
- 2021 Amendments to PFRS 16, Leases, COVID-19 Related Rent Concessions
- Adoption of the Provisions of PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02), PIC Q&A No. 2018-12-H, and PIC Q&A 2018-14 (as amended by PIC Q&A 2020-05)

Please refer to Note 3 of the Company's unaudited interim condensed consolidated financial statements, included elsewhere in the Offer Supplement, for the effect of the adoption of the amended accounting standards.

## FINANCIAL PERFORMANCE

### Six months ended 30 June 2021 vs. six months ended 30 June 2020

| <i>(in ₱ thousands)</i>         | Six-Month Periods Ended 30 June |             |              | Increase<br>(Decrease) |
|---------------------------------|---------------------------------|-------------|--------------|------------------------|
|                                 | 2021<br>(Unaudited)             | 2020        | Change       |                        |
| <b>REVENUE</b>                  |                                 |             |              |                        |
| Rent                            | ₱15,929,041                     | ₱18,304,517 | (₱2,375,476) | (13%)                  |
| Sales:                          |                                 |             |              |                        |
| Real estate                     | 24,092,796                      | 23,460,594  | 632,202      | 3%                     |
| Cinema and event ticket         | 10,474                          | 607,652     | (597,178)    | (98%)                  |
| Others                          | 1,055,799                       | 1,304,186   | (248,387)    | (19%)                  |
|                                 | 41,088,110                      | 43,676,949  | (2,588,839)  | (6%)                   |
| <b>COSTS AND EXPENSES</b>       | 25,015,856                      | 27,328,209  | (2,312,353)  | (8%)                   |
| <b>INCOME FROM OPERATIONS</b>   | 16,072,254                      | 16,348,740  | (276,486)    | (2%)                   |
| <b>OTHER INCOME (CHARGES)</b>   |                                 |             |              |                        |
| Interest expense                | (3,586,719)                     | (3,712,067) | 125,348      | (3%)                   |
| Interest and dividend income    | 439,140                         | 732,438     | (293,298)    | (40%)                  |
| Others - net                    | 1,508,201                       | 380,172     | 1,128,029    | 297%                   |
|                                 | (1,639,378)                     | (2,599,457) | 960,079      | (37%)                  |
| <b>INCOME BEFORE INCOME TAX</b> | 14,432,876                      | 13,749,283  | 683,593      | 5%                     |

| <b>PROVISION FOR INCOME TAX</b> |                    |                    |                   |            |
|---------------------------------|--------------------|--------------------|-------------------|------------|
| Current                         | 1,198,190          | 1,194,387          | 3,803             | 0%         |
| Deferred                        | 1,545,589          | 2,026,325          | (480,736)         | (24%)      |
|                                 | 2,743,779          | 3,220,712          | (476,933)         | (15%)      |
| <b>NET INCOME</b>               | <b>₱11,689,097</b> | <b>₱10,528,571</b> | <b>₱1,160,526</b> | <b>11%</b> |
| <b>Attributable to</b>          |                    |                    |                   |            |
| Equity holders of the Parent    | ₱11,644,915        | ₱10,432,887        | ₱1,212,028        | 12%        |
| Non-controlling interests       | 44,182             | 95,684             | (51,502)          | (54%)      |
|                                 | ₱11,689,097        | ₱10,528,571        | ₱1,160,526        | 11%        |

### Revenues

SM Prime recorded consolidated revenues of ₱20.29 billion in the second quarter of 2021, an improvement of 13% compared to ₱17.89 billion in the same period of 2020.

#### *Rent*

SM Prime recorded consolidated revenues from rent of ₱7.45 billion in the second quarter of 2021, a 35% increase from ₱5.53 billion in the same period of 2020 as more tenants were allowed to operate by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases ("IATF") and local government units. However, rent revenues of ₱15.93 billion in the first six months of 2021 was lower from the ₱18.30 billion in the same period in 2020 as the COVID-19 pandemic started in March 2020. Out of the total rental revenues, 82% of rent revenues is contributed by the malls and the rest from offices and hotels and convention centers.

#### *Real Estate Sales*

SM Prime recorded a 3% increase in real estate sales in the first six months of 2021 from ₱23.46 billion to ₱24.09 billion primarily due to sales take-up and construction accomplishments of ongoing projects, including Shore 3, Glam, Bloom, Fame, Style, Green 2 and Lane and fast take-up of various Ready-For-Occupancy ("RFO") projects particularly those located in Mandaluyong and Pasay. Revenues are recognized in the books based on percentage of completion.

#### *Cinema and Event Ticket Sales and Other Revenues*

SM Prime cinema and event ticket sales and other revenues improved to ₱0.49 billion in the second quarter of 2021 compared to ₱0.20 billion in the same period in 2020. However, it decreased by 44% to ₱1.07 billion in the first six months of 2021 from ₱1.91 billion in the same period in 2020 as the COVID-19 pandemic started in March 2020. Other revenues is composed of sponsorships and advertising revenues, bowling and ice skating operations, merchandise sales from cinema snackbars and sale of food and beverages in hotels.

### Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱25.02 billion in the first six months of 2021, a decrease of 8% from ₱27.33 billion in the same period in 2020, as a result of the following:

#### *Costs of Real Estate*

Consolidated costs of real estate decreased by 3% to ₱10.39 billion in the first six months of 2021 from ₱10.69 billion in the same period in 2020 as a result of improving cost efficiencies.

#### *Operating Expenses*

SM Prime's consolidated operating expenses decreased by 12% to ₱14.62 billion in the first six months

of 2021 compared to last year's ₱16.64 billion. Out of the total operating expenses, 66% is contributed by the malls. Operating expenses include depreciation and amortization, taxes and licenses, marketing and selling expenses, utilities and manpower costs.

#### Other Income (Charges)

##### *Interest Expense*

SM Prime's consolidated interest expense decreased by 3% to ₱3.59 billion in the first six months of 2021 compared to ₱3.71 billion in the same period in 2020 mainly due to lower interest rates and capitalized interest on proceeds spent for construction and development of investment properties.

##### *Interest, Dividend and Others - net*

Interest, dividend and others - net increased to ₱1.95 billion in the first six months of 2021 from last years' ₱1.11 billion. This mainly consists of interest income from cash and cash equivalents, dividend income from equity instruments, equity in net earnings from associates and joint ventures and foreign exchange gains and losses.

#### Provision for income tax

SM Prime's consolidated provision for income tax decreased by 15% to ₱2.74 billion in the first six months of 2021 from ₱3.22 billion in the same period in 2020. The Company recognized a one-time impact of CREATE (as defined below) amounting to ₱0.31 billion.

#### Net income attributable to Parent

SM Prime's consolidated net income attributable to Parent increased by 12% to ₱11.64 billion in the first six months of 2021 as compared to ₱10.43 billion in the same period in 2020.

### **Year ended 31 December 2020 vs. year ended 31 December 2019**

| <i>(in ₱ thousands)</i>         | <b>Years Ended 31 December</b> |             |               | Increase<br>(Decrease) |
|---------------------------------|--------------------------------|-------------|---------------|------------------------|
|                                 | 2020                           | 2019        | Change        |                        |
|                                 | (Audited)                      |             |               |                        |
| <b>REVENUE</b>                  |                                |             |               |                        |
| Rent                            | ₱32,013,024                    | ₱61,759,921 | (₱29,746,897) | (48%)                  |
| Sales:                          |                                |             |               |                        |
| Real estate                     | 46,973,399                     | 44,465,454  | 2,507,945     | 6%                     |
| Cinema and event ticket         | 632,984                        | 5,548,469   | (4,915,485)   | (89%)                  |
| Others                          | 2,279,891                      | 6,537,646   | (4,257,755)   | (65%)                  |
|                                 | 81,899,298                     | 118,311,490 | (36,412,192)  | (31%)                  |
| <b>COSTS AND EXPENSES</b>       | 52,825,112                     | 61,619,162  | (8,794,050)   | (14%)                  |
| <b>INCOME FROM OPERATIONS</b>   | 29,074,186                     | 56,692,328  | (27,618,142)  | (49%)                  |
| <b>OTHER INCOME (CHARGES)</b>   |                                |             |               |                        |
| Interest expense                | (8,596,750)                    | (8,832,770) | 236,020       | (3%)                   |
| Interest and dividend income    | 1,207,227                      | 1,746,406   | (539,179)     | (31%)                  |
| Others - net                    | 779,078                        | (443,970)   | 1,223,048u    | (275%)                 |
|                                 | (6,610,445)                    | (7,530,334) | 919,889       | (12%)                  |
| <b>INCOME BEFORE INCOME TAX</b> | 22,463,741                     | 49,161,994  | (26,698,253)  | (54%)                  |

| <b>PROVISION FOR INCOME TAX</b> |                    |                    |                      |              |
|---------------------------------|--------------------|--------------------|----------------------|--------------|
| Current                         | 1,761,051          | 9,282,069          | (7,521,018)          | (81%)        |
| Deferred                        | 2,562,953          | 1,091,252          | 1,471,701            | 155%         |
|                                 | 4,324,004          | 10,373,321         | (6,049,317)          | 58%          |
| <b>NET INCOME</b>               | <b>₱18,139,737</b> | <b>₱38,788,673</b> | <b>(₱20,648,936)</b> | <b>(53%)</b> |
| <b>Attributable to</b>          |                    |                    |                      |              |
| Equity holders of the Parent    | ₱18,006,512        | ₱38,085,601        | (₱20,079,089)        | (53%)        |
| Non-controlling interests       | 133,225            | 703,072            | (569,847)            | (81%)        |
|                                 | ₱18,139,737        | ₱38,788,673        | (₱20,648,936)        | (53%)        |

## Revenue

SM Prime recorded consolidated revenues of ₱81.90 billion in 2020, a decrease of 31% from ₱118.31 billion in 2019, primarily due to the following:

### *Rent*

SM Prime recorded consolidated revenues from rent of ₱32.01 billion in 2020, a decrease of 48% from ₱61.76 billion in 2019. The decrease in rental revenue was due to the temporary closure of malls as well as other businesses not deemed essential to daily life during the implementation of the community quarantine. The malls have gradually reopened since the lifting of the enhanced community quarantine ("ECQ") on 16 May 2021, subject to safety and protocol standards of the IATF. SM Prime waived a total of ₱23.30 billion in rentals and other charges throughout the government-imposed community quarantine. Out of the total rental revenues, 82% is contributed by the malls and the rest from offices and hotels and convention centers.

### *Real Estate Sales*

SM Prime recorded 6% increase in real estate sales in 2020 from ₱44.47 billion to ₱46.97 billion primarily due to sales take-up and construction accomplishments during the period of ongoing projects including Shore 3, Bloom, Vine, Fame and Lane and fast take-up of various Ready-For-Occupancy (RFO) projects particularly those located in Mandaluyong and Pasay. Even with the imposition of the community quarantine, SM Residences was immediately able to adjust its market reach by maximizing various digital sales platforms and offering flexible payment terms to buyers. 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 and Other Revenues*

SM Prime cinema and event ticket sales and other revenues decreased by 76% to ₱2.91 billion in 2020 from ₱12.09 billion in 2019 due to the effect of COVID-19 in the sector. With strict safety measures and compliance with IATF regulations, the cinema business slowly reopened its doors to patrons starting October 2020. Other revenues is composed of sponsorships and advertising revenues, bowling and ice skating operations, merchandise sales from cinema snackbars and sale of food and beverages in hotels.

## Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱52.83 billion in 2020, a decrease of 14% from ₱61.62 billion in the same period in 2019, as a result of the following:

### *Costs of Real Estate*

Consolidated costs of real estate slightly decreased to ₱20.58 billion in 2020 from ₱20.79 billion in 2019 primarily due to improving cost efficiencies as a result of economies of scale, tighter monitoring and control of construction costs, net of costs related to higher recognized real estate sales. Gross profit

margin on real estate sales improved in 2020 partly due to improving cost efficiencies.

### *Operating Expenses*

SM Prime's consolidated operating expenses decreased by 21% to ₱32.25 billion in 2020 compared to last year's ₱40.82 billion. Out of the total operating expenses, 69% is contributed by the malls. 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 decreased by 3% to ₱8.60 billion in 2020 compared to ₱8.83 billion in 2019 mainly due to higher capitalized interest on proceeds spent for construction and development of investment properties, net of the retail bonds issued in May 2019 and March 2020 amounting to ₱10.0 billion and ₱15.0 billion, respectively, and new bank loans availed for working capital and capital expenditure requirements.

#### *Interest, Dividend and Others - net*

Interest, dividend and others - net increased to ₱1.99 billion in 2020 from ₱1.30 billion in 2019. This account is mainly composed of interest income from cash and cash equivalents, dividend income from equity instruments, equity in net earnings from associates and joint ventures and foreign exchange gains and losses. This account also includes the financial assistance provided by SM Prime to its agency personnel and various local government units (LGUs) amounting to ₱0.33 billion during the implementation of ECQ.

### Provision for income tax

SM Prime's consolidated provision for income tax decreased by 58% to ₱4.32 billion in 2020 from ₱10.37 billion in 2019.

### Net income attributable to Parent

SM Prime's consolidated net income attributable to Parent decreased by 53% to ₱18.01 billion in 2020 as compared to ₱38.09 billion in 2019.

## **Year ended 31 December 2019 vs. year ended 31 December 2018**

| <i>(in ₱ thousands)</i>       | <b>Years Ended 31 December</b> |             |            | Increase<br>(Decrease) |
|-------------------------------|--------------------------------|-------------|------------|------------------------|
|                               | 2019                           | 2018        | Change     |                        |
|                               | (Audited)                      |             |            |                        |
| <b>REVENUE</b>                |                                |             |            |                        |
| Rent                          | ₱61,759,921                    | ₱57,162,796 | ₱4,597,125 | 8%                     |
| Sales:                        |                                |             |            |                        |
| Real estate                   | 44,465,454                     | 35,872,552  | 8,592,902  | 24%                    |
| Cinema and event ticket       | 5,548,469                      | 5,218,434   | 330,035    | 6%                     |
| Others                        | 6,537,646                      | 5,826,783   | 710,863    | 12%                    |
|                               | 118,311,490                    | 104,080,565 | 14,230,925 | 14%                    |
| <b>COSTS AND EXPENSES</b>     | 61,619,162                     | 55,753,334  | 5,865,828  | 11%                    |
| <b>INCOME FROM OPERATIONS</b> | 56,692,328                     | 48,327,231  | 8,365,097  | 17%                    |

|                                 |                    |                    |                   |            |
|---------------------------------|--------------------|--------------------|-------------------|------------|
| <b>OTHER INCOME (CHARGES)</b>   |                    |                    |                   |            |
| Interest expense                | (8,832,770)        | (7,540,045)        | (1,292,725)       | 17%        |
| Interest and dividend income    | 1,746,406          | 1,828,776          | (82,370)          | (5%)       |
| Others - net                    | (443,970)          | (649,787)          | 205,817           | (32%)      |
|                                 | (7,530,334)        | (6,361,056)        | (1,169,278)       | 18%        |
| <b>INCOME BEFORE INCOME TAX</b> | 49,161,994         | 41,966,175         | 7,195,819         | 17%        |
| <b>PROVISION FOR INCOME TAX</b> |                    |                    |                   |            |
| Current                         | 9,282,069          | 8,534,428          | 747,641           | 9%         |
| Deferred                        | 1,091,252          | 520,618            | 570,634           | 110%       |
|                                 | 10,373,321         | 9,055,046          | 1,318,275         | 15%        |
| <b>NET INCOME</b>               | <b>₱38,788,673</b> | <b>₱32,911,129</b> | <b>₱5,877,544</b> | <b>18%</b> |
| <b>Attributable to</b>          |                    |                    |                   |            |
| Equity holders of the Parent    | ₱38,085,601        | ₱32,172,886        | ₱5,912,715        | 18%        |
| Non-controlling interests       | 703,072            | 738,243            | (35,171)          | (5%)       |
|                                 | ₱38,788,673        | ₱32,911,129        | ₱5,877,544        | 18%        |

### 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, fuelled 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 income (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.

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

| <i>(in ₱ thousands)</i>         | <b>Years Ended 31 December</b> |             |             | Increase<br>(Decrease) |
|---------------------------------|--------------------------------|-------------|-------------|------------------------|
|                                 | 2018                           | 2017        | Change      |                        |
|                                 | (Audited)                      |             |             |                        |
| <b>REVENUE</b>                  |                                |             |             |                        |
| Rent                            | ₱57,162,796                    | ₱51,406,294 | ₱5,756,502  | 11%                    |
| Sales:                          |                                |             |             |                        |
| Real estate                     | 35,872,552                     | 29,434,050  | 6,438,502   | 22%                    |
| Cinema and event ticket         | 5,218,434                      | 4,767,364   | 451,070     | 9%                     |
| Others                          | 5,826,783                      | 5,314,142   | 512,641     | 10%                    |
|                                 | 104,080,565                    | 90,921,850  | 13,158,715  | 14%                    |
| <b>COSTS AND EXPENSES</b>       | 55,753,334                     | 50,293,058  | 5,460,276   | 11%                    |
| <b>INCOME FROM OPERATIONS</b>   | 48,327,231                     | 40,628,792  | 7,698,439   | 19%                    |
| <b>OTHER INCOME (CHARGES)</b>   |                                |             |             |                        |
| Interest expense                | (7,540,045)                    | (5,474,422) | (2,065,623) | 38%                    |
| Interest and dividend income    | 1,828,776                      | 1,214,347   | 614,429     | 51%                    |
| Others - net                    | (649,787)                      | (420,856)   | (228,931)   | 54%                    |
|                                 | (6,361,056)                    | (4,680,931) | (1,680,125) | 36%                    |
| <b>INCOME BEFORE INCOME TAX</b> | 41,966,175                     | 35,947,861  | 6,018,314   | 17%                    |
| <b>PROVISION FOR INCOME TAX</b> |                                |             |             |                        |
| Current                         | 8,534,428                      | 7,531,782   | 1,002,646   | 13%                    |
| Deferred                        | 520,618                        | 291,616     | 229,002     | 79%                    |
|                                 | 9,055,046                      | 7,823,398   | 1,231,648   | 16%                    |
| <b>NET INCOME</b>               | ₱32,911,129                    | ₱28,124,463 | ₱4,786,666  | 17%                    |
| <b>Attributable to</b>          |                                |             |             |                        |
| Equity holders of the Parent    | ₱32,172,886                    | ₱27,573,866 | ₱4,599,020  | 17%                    |
| Non-controlling interests       | 738,243                        | 550,597     | 187,646     | 34%                    |
|                                 | ₱32,911,129                    | ₱28,124,463 | ₱4,786,666  | 17%                    |

Revenue

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

*Rent*

SM Prime recorded consolidated revenues from rent of ₱57.16 billion in 2018, an increase of 11% from ₱51.41 billion in 2017. The increase in rental revenue was primarily due to the new malls and expansions opened in 2017 and 2018 namely, SM CDO Downtown Premier, S Maison, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM City Urdaneta Central, SM City Telabastagan, SM City Legazpi and SM Center Ormoc with a total gross floor area of 0.53 million square meters. Out of the total rental revenues, 88% is contributed by the malls and the rest from office and hotels and convention centers.

Excluding the new malls, same-store rental growth is at 8%. Rent from commercial operations also increased due to the opening of Three E-Com Center and SM Southmall South Tower in 2018.

#### *Real Estate Sales*

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

#### *Cinema and Event Ticket Sales*

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

#### *Other Revenues*

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

#### Costs and Expenses

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

#### *Costs of Real Estate*

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

#### *Operating Expenses*

SM Prime's consolidated operating expenses increased by 8% to ₱37.98 billion in 2018 compared to ₱35.14 billion in 2017 due to new mall openings. Out of the total operating expenses, 71% is contributed by the malls where same-store mall growth in operating expenses is at 4%. Operating expenses include depreciation and amortization, film rentals, taxes and licenses, marketing and selling expenses, utilities and manpower, including agency costs.

#### Other Income (Charges)

#### *Interest Expense*

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

of the capitalized interest on proceeds spent for construction and development of investment properties.

#### *Interest and Dividend Income*

Interest and dividend income increased by 51% to ₱1.83 billion in 2018 from ₱1.21 billion in 2017. This account is mainly composed of interest and dividend income received from cash and cash equivalents, investments held for trading and investments at fair value through other comprehensive income ("FVOCI"). The increase is due to higher average balance of cash and cash equivalents and higher dividends received in 2018 on investments at FVOCI.

#### *Others - net*

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

#### Provision for income tax

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

#### Net income attributable to equity holders of the Parent

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

## **FINANCIAL CONDITION**

### **30 June 2021 vs. 31 December 2020**

| <i>(in ₱ thousands)</i>   | 30 June<br>2021<br>(Unaudited) | 31 December<br>2020<br>(Audited) | Change             | Increase<br>(Decrease) |
|---|--------------------------------|----------------------------------|--------------------|------------------------|
| <b>ASSETS</b>   |                                |                                  |                    |                        |
| <b>Current Assets</b>   |                                |                                  |                    |                        |
| Cash and cash equivalents   | ₱26,839,332                    | ₱30,661,614                      | (₱3,822,282)       | (12%)                  |
| Receivables and contract assets                                     | 58,159,280                     | 58,944,930                       | (785,650)          | (1%)                   |
| Real estate inventories   | 46,945,563                     | 43,691,877                       | 3,253,686          | 7%                     |
| Equity instruments at fair value through other comprehensive income | 562,627                        | 568,146                          | (5,519)            | (1%)                   |
| Derivative assets   | -                              | 2,747                            | (2,747)            | (100%)                 |
| Prepaid expenses and other current assets                           | 24,724,040                     | 23,205,662                       | 1,518,378          | 7%                     |
| <b>Total Current Assets</b>   | <b>157,230,842</b>             | <b>157,074,976</b>               | <b>155,866</b>     | <b>0%</b>              |
| <b>Noncurrent Assets</b>  |                                |                                  |                    |                        |
| Equity instruments at FVOCI - net of current portion                | 16,493,970                     | 16,131,568                       | 362,402            | 2%                     |
| Investment properties - net   | 454,120,025                    | 436,159,081                      | 17,960,944         | 4%                     |
| Investments in associates and joint ventures                        | 28,480,683                     | 27,735,239                       | 745,444            | 3%                     |
| Property and equipment - net  | 1,291,706                      | 1,311,208                        | (74,316)           | (5%)                   |
| Deferred tax assets - net   | 902,212                        | 831,546                          | (19,502)           | (1%)                   |
| Derivative assets - net of current portion                          | 22,481                         | -                                | 22,481             | -                      |
| Other noncurrent assets   | 90,871,892                     | 83,115,307                       | 7,756,585          | 9%                     |
| <b>Total Noncurrent Assets</b>                                      | <b>592,182,969</b>             | <b>565,283,949</b>               | <b>26,899,020</b>  | <b>5%</b>              |
|   | <b>₱749,413,811</b>            | <b>₱722,358,925</b>              | <b>₱27,054,886</b> | <b>4%</b>              |

## LIABILITIES AND EQUITY

### Current Liabilities

|  |                    |                    |                     |              |
|--|--------------------|--------------------|---------------------|--------------|
| Loans payable                                  | ₱4,442,567         | ₱10,900,000        | (6,457,433)         | (59%)        |
| Accounts payable and other current liabilities | 79,618,984         | 81,033,985         | (1,415,001)         | (2%)         |
| Current portion of long-term debt              | 27,959,206         | 42,738,350         | (14,779,144)        | (35%)        |
| Derivative liabilities                         | 356,549            | 357,662            | (1,113)             | 0%           |
| Income tax payable                             | 583,679            | 957,906            | (374,227)           | (39%)        |
| <b>Total Current Liabilities</b>               | <b>112,960,985</b> | <b>135,987,903</b> | <b>(23,026,918)</b> | <b>(17%)</b> |

### Noncurrent Liabilities

|   |                    |                    |                   |            |
|---|--------------------|--------------------|-------------------|------------|
| Long-term debt - net of current portion                   | 254,408,917        | 218,830,647        | 35,578,270        | 16%        |
| Tenants' and customers' deposits - net of current portion | 21,553,885         | 21,331,869         | 222,016           | 1%         |
| Liability for purchased land - net of current portion     | 2,177,918          | 1,251,227          | 926,691           | 74%        |
| Deferred tax liabilities - net                            | 8,482,776          | 6,786,018          | 1,696,758         | 25%        |
| Derivative liabilities - net of current portion           | 1,880,115          | 2,445,735          | (565,620)         | (23%)      |
| Other noncurrent liabilities                              | 27,005,874         | 25,007,898         | 1,997,976         | 8%         |
| <b>Total Noncurrent Liabilities</b>                       | <b>315,509,485</b> | <b>275,653,394</b> | <b>39,856,091</b> | <b>14%</b> |
| <b>Total Liabilities</b>                                  | <b>428,470,470</b> | <b>411,641,297</b> | <b>16,829,173</b> | <b>4%</b>  |

### Equity Attributable to Equity Holders of the Parent

|  |                     |                     |                    |             |
|--|---------------------|---------------------|--------------------|-------------|
| Capital stock  | 33,166,300          | 33,166,300          | –                  | 0%          |
| Additional paid-in capital - net                                 | 38,022,913          | 38,022,913          | –                  | 0%          |
| Cumulative translation adjustment                                | 1,993,712           | 1,524,439           | 469,273            | 31%         |
| Net fair value changes of equity instruments at FVOCI            | 13,817,551          | 13,460,669          | 356,882            | 3%          |
| Net fair value changes on cash flow hedges                       | (1,524,065)         | (1,769,030)         | 244,965            | (14%)       |
| Remeasurement loss on defined benefit obligation                 | (626,751)           | (587,796)           | (38,955)           | 7%          |
| Retained earnings:   |                     |                     |                    |             |
| Appropriated   | 42,200,000          | 42,200,000          | –                  | 0%          |
| Unappropriated   | 195,529,956         | 186,251,267         | 9,278,689          | 5%          |
| Treasury stock   | (2,984,695)         | (2,984,695)         | –                  | 0%          |
| <b>Total Equity Attributable to Equity Holders of the Parent</b> | <b>319,594,921</b>  | <b>309,284,067</b>  | <b>10,310,854</b>  | <b>3%</b>   |
| <b>Non-controlling Interests</b>                                 | <b>1,348,420</b>    | <b>1,433,561</b>    | <b>(85,141)</b>    | <b>(6%)</b> |
| <b>Total Equity</b>  | <b>320,943,341</b>  | <b>310,717,628</b>  | <b>10,225,713</b>  | <b>3%</b>   |
|  | <b>₱749,413,811</b> | <b>₱722,358,925</b> | <b>₱27,054,886</b> | <b>4%</b>   |

SM Prime's total assets amounted to ₱749.41 billion and ₱722.36 billion as of 30 June 2021 and 31 December 2020, respectively.

Cash and cash equivalents decreased by 12% from ₱30.66 billion to ₱26.84 billion as of 31 December 2020 and 30 June 2021, respectively, mostly due to payments for capital expenditure projects during the period and debt servicing.

Real estate inventories increased by 7% from ₱43.69 billion to ₱46.95 billion as of 31 December 2020 and 30 June 2021, respectively, due to construction accomplishments for the period, net of cost of sold units.

Prepaid expenses and other current assets increased by 7% from ₱23.21 billion to ₱24.72 billion as of 31 December 2020 and 30 June 2021, respectively, due to increase in input and creditable withholding taxes and deposits and advances to contractors related to construction projects.

Other noncurrent assets, which includes bonds and deposits for real estate acquisitions and noncurrent portion of receivables from sale of real estate, increased by 9% from ₱83.12 billion to ₱90.87 billion as of 31 December 2020 and 30 June 2021, respectively.

Loans payable decreased from ₱10.90 billion to ₱4.44 billion as of 31 December 2020 and 30 June

2021, respectively, due to payments, net of availment for the period.

Long-term debt increased by 8% from ₱261.57 billion to ₱282.37 billion as of 31 December 2020 and 30 June 2021, respectively, mainly due to the issuance of ₱10.00 billion retail bonds in February 2021 and new loan availments to fund capital expenditure requirements, net of payment of maturing loans.

Derivative liabilities - net decreased by 21% from ₱2.80 billion to ₱2.21 billion as of 31 December 2020 and 30 June 2021, respectively, as a result of foreign exchange and net fair value changes on principal only swap transactions, and cross currency swap transactions as well as maturity in January 2021 of certain principal only swap and interest rate swap transactions entered into to hedge the Company's foreign exchange currency exposure on dollar denominated long-term debts.

Liability for purchased land increased from ₱1.25 billion to ₱2.18 billion as of 31 December 2020 and 30 June 2021, respectively, due to acquisitions for the period.

Deferred tax assets - net increased by 8% from ₱0.83 billion to ₱0.90 billion as of 31 December 2020 and 30 June 2021, respectively due to NOLCO. Deferred tax liabilities - net increased by 25% from ₱6.79 billion to ₱8.48 billion as of 31 December 2020 and 30 June 2021, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes.

Other noncurrent liabilities increased by 8% from ₱25.01 billion to ₱27.01 billion as of 31 December 2020 and 30 June 2021, respectively, due to increase in deferred output VAT related to sale of residential projects.

As at 30 June 2021 and 31 December 2020, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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.

### 31 December 2020 vs. 31 December 2019

| <i>(in ₱ thousands)</i>   | 31 December<br>2020<br>(Audited) | 31 December<br>2019<br>(Audited) | Change             | Increase<br>(Decrease) |
|---|----------------------------------|----------------------------------|--------------------|------------------------|
| <b>ASSETS</b>   |                                  |                                  |                    |                        |
| <b>Current Assets</b>   |                                  |                                  |                    |                        |
| Cash and cash equivalents   | ₱30,661,614                      | ₱34,599,959                      | (₱3,938,345)       | (11%)                  |
| Receivables and contract assets                                     | 58,944,930                       | 53,636,921                       | 5,308,009          | 10%                    |
| Real estate inventories   | 43,691,877                       | 43,946,109                       | (254,232)          | (1%)                   |
| Equity instruments at fair value through other comprehensive income | 568,146                          | 659,077                          | (90,931)           | (14%)                  |
| Derivative assets   | 2,747                            | -                                | 2,747              | -                      |
| Prepaid expenses and other current assets                           | 23,205,662                       | 19,485,542                       | 3,720,120          | 19%                    |
| <b>Total Current Assets</b>   | <b>157,074,976</b>               | <b>152,327,608</b>               | <b>4,747,368</b>   | <b>3%</b>              |
| <b>Noncurrent Assets</b>  |                                  |                                  |                    |                        |
| Equity instruments at FVOCI - net of current portion                | 16,131,568                       | 20,420,959                       | (4,289,391)        | (21%)                  |
| Investment properties - net   | 436,159,081                      | 410,639,578                      | 25,519,503         | 6%                     |
| Investments in associates and joint ventures                        | 27,735,239                       | 27,214,398                       | 520,841            | 2%                     |
| Property and equipment - net  | 1,311,208                        | 1,383,320                        | (72,112)           | (5%)                   |
| Deferred tax assets - net   | 831,546                          | 903,845                          | (72,299)           | (8%)                   |
| Derivative assets - net of current portion                          | -                                | 826,315                          | (826,315)          | (100%)                 |
| Other noncurrent assets   | 83,115,307                       | 53,563,651                       | 29,551,656         | 55%                    |
| <b>Total Noncurrent Assets</b>                                      | <b>565,283,949</b>               | <b>514,952,066</b>               | <b>50,331,883</b>  | <b>10%</b>             |
|   | <b>₱722,358,925</b>              | <b>₱667,279,674</b>              | <b>₱55,079,251</b> | <b>8%</b>              |

## LIABILITIES AND EQUITY

### Current Liabilities

|  |                    |                   |                   |            |
|--|--------------------|-------------------|-------------------|------------|
| Loans payable                                  | ₱10,900,000        | ₱100,000          | 10,800,000        | 10,800%    |
| Accounts payable and other current liabilities | 81,033,985         | 70,125,750        | 10,908,235        | 16%        |
| Current portion of long-term debt              | 42,738,350         | 23,521,373        | 19,216,977        | 82%        |
| Derivative liabilities                         | 357,662            | –                 | 357,662           | –          |
| Income tax payable                             | 957,906            | 1,509,657         | (551,751)         | (37%)      |
| <b>Total Current Liabilities</b>               | <b>135,987,903</b> | <b>95,256,780</b> | <b>40,731,123</b> | <b>43%</b> |

### Noncurrent Liabilities

|   |                    |                    |                   |            |
|---|--------------------|--------------------|-------------------|------------|
| Long-term debt - net of current portion                   | 218,830,647        | 214,333,050        | 4,497,597         | 2%         |
| Tenants' and customers' deposits - net of current portion | 21,331,869         | 21,646,217         | (314,348)         | (1%)       |
| Liability for purchased land - net of current portion     | 1,251,227          | 4,214,234          | (2,963,007)       | (70%)      |
| Deferred tax liabilities - net                            | 6,786,018          | 4,179,154          | 2,606,864         | 62%        |
| Derivative liabilities - net of current portion           | 2,445,735          | 711,617            | 1,734,118         | 244%       |
| Other noncurrent liabilities                              | 25,007,898         | 24,422,348         | 585,550           | 2%         |
| <b>Total Noncurrent Liabilities</b>                       | <b>275,653,394</b> | <b>269,506,620</b> | <b>6,146,774</b>  | <b>2%</b>  |
| <b>Total Liabilities</b>                                  | <b>411,641,297</b> | <b>364,763,400</b> | <b>46,877,897</b> | <b>13%</b> |

### Equity Attributable to Equity Holders of the Parent

|  |                     |                     |                    |              |
|--|---------------------|---------------------|--------------------|--------------|
| Capital stock  | 33,166,300          | 33,166,300          | –                  | 0%           |
| Additional paid-in capital - net                                 | 38,022,913          | 38,007,668          | 15,245             | 0%           |
| Cumulative translation adjustment                                | 1,524,439           | 1,344,274           | 180,165            | 13%          |
| Net fair value changes of equity instruments at FVOCI            | 13,460,669          | 17,840,990          | (4,380,321)        | (25%)        |
| Net fair value changes on cash flow hedges                       | (1,769,030)         | (1,328,167)         | (440,863)          | 30%          |
| Remeasurement loss on defined benefit obligation                 | (587,796)           | (913,390)           | 325,594            | (36%)        |
| Retained earnings:   |                     |                     |                    |              |
| Appropriated   | 42,200,000          | 42,200,000          | –                  | 0%           |
| Unappropriated   | 186,251,267         | 173,583,191         | 12,668,076         | 7%           |
| Treasury stock   | (2,984,695)         | (2,984,695)         | –                  | 0%           |
| <b>Total Equity Attributable to Equity Holders of the Parent</b> | <b>309,284,067</b>  | <b>300,916,171</b>  | <b>8,367,896</b>   | <b>3%</b>    |
| <b>Non-controlling Interests</b>                                 | <b>1,433,561</b>    | <b>1,600,103</b>    | <b>(166,542)</b>   | <b>(10%)</b> |
| <b>Total Equity</b>  | <b>310,717,628</b>  | <b>302,516,274</b>  | <b>8,201,354</b>   | <b>3%</b>    |
|  | <b>₱722,358,925</b> | <b>₱667,279,674</b> | <b>₱55,079,251</b> | <b>8%</b>    |

SM Prime's total assets amounted to ₱722.36 billion as of 31 December 2020, an increase of 8% from ₱667.28 billion as of 31 December 2019.

Cash and cash equivalents decreased by 11% from ₱34.60 billion to ₱30.66 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to payments for capital expenditure projects during the period and debt servicing.

Receivables and contract assets increased by 10% from ₱53.64 billion to ₱58.94 billion as of 31 December 2019 and 31 December 2020, respectively, due to increase in real estate sales and due to the Bayanihan to Recover as One Act (Bayanihan Act) mandating an extended grace period for the payment of loan amortizations due on or before December 31, 2020.

Prepaid expenses and other current assets increased by 19% from ₱19.49 billion to ₱23.21 billion as of 31 December 2019 and 31 December 2020, respectively, due to increase in input and creditable withholding taxes and deposits and advances to contractors related to construction projects.

Equity instruments at fair value through other comprehensive income decreased by 21% from ₱21.08 billion to ₱16.70 billion as of 31 December 2019 and 31 December 2020, respectively, due to changes in fair values under this portfolio.

Investment properties increased by 6% from ₱410.64 billion to ₱436.16 billion as of 31 December 2019 and 31 December 2020, respectively, primarily due to landbanking, ongoing new mall projects, redevelopment of SM Mall of Asia and other existing malls and commercial building construction, net of depreciation expense for the period.

Property and equipment net decreased by 5% from ₱1.38 billion to ₱1.31 billion as of 31 December 2019 and 31 December 2020, respectively, primarily due to depreciation expense for the period, net of acquisitions.

Deferred tax assets - net decreased by 8% from ₱0.90 billion to ₱0.83 billion as of 31 December 2019 and 31 December 2020, respectively due to NOLCO. Deferred tax liabilities - net increased by 62% from ₱4.18 billion to ₱6.79 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes.

Derivative liabilities – net decreased to ₱2.80 billion as of 31 December 2020 as a result of foreign exchange and net fair value changes on principal only swap transactions, interest rate swap transactions and cross currency swap transactions entered into to hedge the Company's foreign exchange currency exposure on dollar denominated long-term debts.

Other noncurrent assets increased by 55% from ₱53.56 billion to ₱83.10 billion as of 31 December 2019 and 31 December 2020, respectively, due to additional bonds and deposits for real estate acquisitions and high take-up of ongoing residential projects.

Loans payable increased from ₱0.10 billion to ₱10.90 billion as of 31 December 2019 and 31 December 2020, respectively, due to availments.

Accounts payable and other current liabilities increased by 16% from ₱70.13 billion to ₱81.03 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to payables to contractors and suppliers related to ongoing projects, liability for purchased land and customers' deposits.

Long-term debt increased by 10% from ₱237.85 billion to ₱261.57 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to the issuance of ₱15.00 billion retail bonds in March 2020 and new loan availments to fund capital expenditure requirements, net of payment of maturing loans.

Liability for purchased land – net of current portion decreased by 70% from ₱4.21 billion to ₱1.25 billion as of 31 December 2019 and 31 December 2020, respectively, due to subsequent payments.

As at 31 December 2020 and 31 December 2019, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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.

### 31 December 2019 vs. 31 December 2018

| <i>(in ₱ thousands)</i>   | 31 December<br>2019<br>(Audited) | 31 December<br>2018<br>(Audited) | Change       | Increase<br>(Decrease) |
|---|----------------------------------|----------------------------------|--------------|------------------------|
| <b>ASSETS</b>   |                                  |                                  |              |                        |
| <b>Current Assets</b>   |                                  |                                  |              |                        |
| Cash and cash equivalents   | ₱34,599,959                      | ₱38,766,467                      | (₱4,166,508) | (11%)                  |
| Receivables and contract assets                                     | 53,636,921                       | 35,229,450                       | 18,407,471   | 52%                    |
| Real estate inventories   | 43,946,109                       | 37,575,103                       | 6,371,006    | 17%                    |
| Equity instruments at fair value through other comprehensive income | 659,077                          | 639,316                          | 19,761       | 3%                     |
| Derivative assets   | –                                | 432,898                          | (432,898)    | (100%)                 |
| Prepaid expenses and other current assets                           | 19,485,542                       | 15,147,029                       | 4,338,513    | 29%                    |

|  |              |              |              |       |
|--|--------------|--------------|--------------|-------|
| Total Current Assets                                 | 152,327,608  | 127,790,263  | 24,537,345   | 19%   |
| <b>Noncurrent Assets</b>                             |              |              |              |       |
| Equity instruments at FVOCI - net of current portion | 20,420,959   | 22,892,937   | (2,471,978)  | (11%) |
| Investment properties - net                          | 410,639,578  | 343,418,862  | 67,220,716   | 20%   |
| Investments in associates and joint ventures         | 27,214,398   | 26,199,380   | 1,015,018    | 4%    |
| Property and equipment - net                         | 1,383,320    | 1,419,111    | (35,791)     | (3%)  |
| Deferred tax assets - net                            | 903,845      | 1,083,670    | (179,825)    | (17%) |
| Derivative assets - net of current portion           | 826,315      | 420,035      | 406,280      | 97%   |
| Other noncurrent assets                              | 53,563,651   | 80,910,060   | (27,346,409) | (34%) |
| Total Noncurrent Assets                              | 514,952,066  | 476,344,055  | 38,608,011   | 8%    |
|  | ₱667,279,674 | ₱604,134,318 | ₱63,145,356  | 10%   |

## LIABILITIES AND EQUITY

### Current Liabilities

|  |            |            |             |      |
|--|------------|------------|-------------|------|
| Loans payable                                  | ₱100,000   | ₱39,400    | 60,600      | 154% |
| Accounts payable and other current liabilities | 70,125,750 | 61,767,086 | 8,358,664   | 14%  |
| Current portion of long-term debt              | 23,521,373 | 25,089,624 | (1,568,251) | (6%) |
| Income tax payable                             | 1,509,657  | 1,383,742  | 125,915     | 9%   |
| Total Current Liabilities                      | 95,256,780 | 88,279,852 | 6,976,928   | 8%   |

### Noncurrent Liabilities

|   |             |             |             |       |
|---|-------------|-------------|-------------|-------|
| Long-term debt - net of current portion                   | 214,333,050 | 197,682,262 | 16,650,788  | 8%    |
| Tenants' and customers' deposits - net of current portion | 21,646,217  | 18,676,022  | 2,970,195   | 16%   |
| Liability for purchased land - net of current portion     | 4,214,234   | 6,044,220   | (1,829,986) | (30%) |
| Deferred tax liabilities - net                            | 4,179,154   | 3,527,501   | 651,653     | 18%   |
| Derivative liabilities - net of current portion           | 711,617     | 335,008     | 376,609     | 112%  |
| Other noncurrent liabilities                              | 24,422,348  | 10,511,491  | 13,910,857  | 132%  |
| Total Noncurrent Liabilities                              | 269,506,620 | 236,776,504 | 32,730,116  | 14%   |
| Total Liabilities   | 364,763,400 | 325,056,356 | 39,707,044  | 12%   |

### Equity Attributable to Equity Holders of the Parent

|   |              |              |             |       |
|---|--------------|--------------|-------------|-------|
| Capital stock   | 33,166,300   | 33,166,300   | –           | 0%    |
| Additional paid-in capital - net                          | 38,007,668   | 39,953,218   | (1,945,550) | 1%    |
| Cumulative translation adjustment                         | 1,344,274    | 1,955,999    | (611,725)   | (31%) |
| Net fair value changes of equity instruments at FVOCI     | 17,840,990   | 19,084,597   | (1,243,607) | (7%)  |
| Net fair value changes on cash flow hedges                | (1,328,167)  | (842,098)    | (486,069)   | 58%   |
| Remeasurement loss on defined benefit obligation          | (913,390)    | (348,480)    | (564,910)   | 162%  |
| Retained earnings:  |              |              |             |       |
| Appropriated  | 42,200,000   | 42,200,000   | –           | 0%    |
| Unappropriated  | 173,583,191  | 143,118,153  | 30,465,038  | 21%   |
| Treasury stock  | (2,984,695)  | (2,984,695)  | –           | 0%    |
| Total Equity Attributable to Equity Holders of the Parent | 300,916,171  | 275,302,994  | 25,613,177  | 9%    |
| <b>Non-controlling Interests</b>                          | 1,600,103    | 3,774,968    | (2,174,865) | (58%) |
| Total Equity  | 302,516,274  | 279,077,962  | 23,438,312  | 9%    |
|   | ₱667,279,674 | ₱604,134,318 | ₱63,145,356 | 10%   |

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

Cash and cash equivalents decreased by 11% from ₱38.77 billion as of 31 December 2018 to ₱34.60 billion as of 31 December 2019 mainly due to payments for capital expenditure projects during the

period and debt servicing, net of increase in the Company and its subsidiaries' 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 as of 31 December 2018 to ₱53.64 billion as of 31 December 2019 due to high take-up of residential projects.

Real estate inventories increased by 17% from ₱37.58 billion as of 31 December 2018 to ₱43.95 billion as of 31 December 2019 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 as of 31 December 2018 to ₱19.49 billion as of 31 December 2019 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 as of 31 December 2018 to ₱21.08 billion as of 31 December 2019 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 as of 31 December 2018 to ₱410.64 billion as of 31 December 2019 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 and its subsidiaries adopted PFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019 which resulted to the recognition of right-of-use assets amounting to ₱21.66 billion as of 31 December 2019.

Derivative assets - net decreased from ₱0.52 billion as of 31 December 2018 to ₱0.11 billion as of 31 December 2019 mainly resulting from the net fair value changes on the cross currency swap transactions entered into in 2018.

Deferred tax assets - net decreased by 17% from ₱1.08 billion as of 31 December 2018 to ₱0.90 billion as of 31 December 2019. Deferred tax liabilities - net increased by 18% from ₱3.53 billion as of 31 December 2018 to ₱4.18 billion as of 31 December 2019 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 as of 31 December 2018 to ₱53.56 billion as of 31 December 2019 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 as of 31 December 2018 to ₱0.10 billion as of 31 December 2019 due to availment of loans.

Accounts payable and other current liabilities increased by 14% from ₱61.77 billion as of 31 December 2018 to ₱70.13 billion as of 31 December 2019 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 as of 31 December 2018 to ₱237.85 billion as of 31 December 2019 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 as of 31 December 2018 to ₱21.65 billion as of 31 December 2019 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 as of 31 December 2018 to ₱4.21 billion as of 31 December 2019 due to subsequent payments.

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

As at 31 December 2019 and 2018, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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.

### 31 December 2018 vs. 31 December 2017

| <i>(in ₱ thousands)</i>   | 31 December<br>2018<br>(Audited) | 31 December<br>2017<br>(Audited) | Change             | Increase<br>(Decrease) |
|---|----------------------------------|----------------------------------|--------------------|------------------------|
| <b>ASSETS</b>   |                                  |                                  |                    |                        |
| <b>Current Assets</b>   |                                  |                                  |                    |                        |
| Cash and cash equivalents   | ₱38,766,467                      | ₱44,371,534                      | (₱5,605,067)       | (13%)                  |
| Financial assets at fair value through other comprehensive income   |                                  | 731,076                          | (731,076)          | (100%)                 |
| Receivables and contract assets                                     | 35,229,450                       | 33,990,678                       | 1,238,772          | 4%                     |
| Real estate inventories   | 37,575,103                       | 31,251,437                       | 6,323,666          | 20%                    |
| Equity instruments at fair value through other comprehensive income | 639,316                          | 641,300                          | (1,984)            | 0%                     |
| Derivative assets   | 432,898                          | -                                | 432,898            | -                      |
| Prepaid expenses and other current assets                           | 15,147,029                       | 14,590,015                       | 557,014            | 4%                     |
| <b>Total Current Assets</b>   | <b>127,790,263</b>               | <b>125,576,040</b>               | <b>2,214,223</b>   | <b>2%</b>              |
| <b>Noncurrent Assets</b>  |                                  |                                  |                    |                        |
| Equity instruments at FVOCI - net of current portion                | 22,892,937                       | 30,464,845                       | (7,571,908)        | (25%)                  |
| Investment properties - net   | 343,418,862                      | 309,232,182                      | 34,186,680         | 11%                    |
| Investments in associates and joint ventures                        | 26,199,380                       | 24,566,239                       | 1,633,141          | 7%                     |
| Property and equipment - net  | 1,419,111                        | 1,493,427                        | (74,316)           | (5%)                   |
| Deferred tax assets - net   | 1,083,670                        | 1,114,291                        | (30,621)           | (3%)                   |
| Derivative assets - net of current portion                          | 420,035                          | 3,546,694                        | (3,126,659)        | (88%)                  |
| Other noncurrent assets   | 80,910,060                       | 42,423,880                       | 38,486,180         | 91%                    |
| <b>Total Noncurrent Assets</b>                                      | <b>476,344,055</b>               | <b>412,841,558</b>               | <b>63,502,497</b>  | <b>15%</b>             |
|   | <b>₱604,134,318</b>              | <b>₱538,417,598</b>              | <b>₱65,716,720</b> | <b>12%</b>             |

### LIABILITIES AND EQUITY

#### Current Liabilities

|  |                   |                   |                   |            |
|--|-------------------|-------------------|-------------------|------------|
| Loans payable                                  | ₱39,400           | ₱744,400          | (705,000)         | (95%)      |
| Accounts payable and other current liabilities | 61,767,086        | 51,084,082        | 10,683,004        | 21%        |
| Current portion of long-term debt              | 25,089,624        | 25,344,035        | (254,411)         | (1%)       |
| Income tax payable                             | 1,383,742         | 1,035,215         | 348,527           | 34%        |
| <b>Total Current Liabilities</b>               | <b>88,279,852</b> | <b>78,207,732</b> | <b>10,072,120</b> | <b>13%</b> |

#### Noncurrent Liabilities

|   |             |             |            |       |
|---|-------------|-------------|------------|-------|
| Long-term debt - net of current portion                   | 197,682,262 | 167,509,484 | 30,172,778 | 18%   |
| Tenants' and customers' deposits - net of current portion | 18,676,022  | 16,376,024  | 2,299,998  | 14%   |
| Liability for purchased land - net of current portion     | 6,044,220   | 2,170,998   | 3,873,222  | 178%  |
| Deferred tax liabilities - net                            | 3,527,501   | 2,877,971   | 649,530    | 23%   |
| Derivative liabilities - net of current portion           | 335,008     | 777,408     | (442,400)  | (57%) |
| Other noncurrent liabilities                              | 10,511,491  | 7,624,067   | 2,887,424  | 38%   |

|                              |             |             |            |     |
|------------------------------|-------------|-------------|------------|-----|
| Total Noncurrent Liabilities | 236,776,504 | 197,335,952 | 39,440,552 | 20% |
| Total Liabilities            | 325,056,356 | 275,543,684 | 49,512,672 | 18% |

**Equity Attributable to Equity Holders of the Parent**

|   |              |              |             |       |
|---|--------------|--------------|-------------|-------|
| Capital stock   | 33,166,300   | 33,166,300   | –           | 0%    |
| Additional paid-in capital - net                          | 39,953,218   | 39,662,168   | 291,050     | 0%    |
| Cumulative translation adjustment                         | 1,955,999    | 2,110,745    | (154,746)   | (7%)  |
| Net fair value changes of equity instruments at FVOCI     | 19,084,597   | 25,489,705   | (6,405,108) | (25%) |
| Net fair value changes on cash flow hedges                | (842,098)    | (311,429)    | (530,669)   | 170%  |
| Remeasurement loss on defined benefit obligation          | (348,480)    | (199,126)    | (149,354)   | 75%   |
| Retained earnings:  |              |              |             |       |
| Appropriated  | 42,200,000   | 42,200,000   | –           | 0%    |
| Unappropriated  | 143,118,153  | 120,125,945  | 22,992,208  | 19%   |
| Treasury stock  | (2,984,695)  | (3,287,087)  | 302,392     | (9%)  |
| Total Equity Attributable to Equity Holders of the Parent | 275,302,994  | 258,957,221  | 16,345,773  | 6%    |
| <b>Non-controlling Interests</b>                          | 3,774,968    | 3,916,693    | (141,725)   | (4%)  |
| Total Equity  | 279,077,962  | 262,873,914  | 16,204,048  | 6%    |
|   | ₱604,134,318 | ₱538,417,598 | ₱65,716,720 | 12%   |

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

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

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

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

Real estate inventories increased by 20% from ₱31.25 billion as of 31 December 2017 to ₱37.58 billion as of 31 December 2018 due to higher construction accomplishments for the period, net of sales take up of RFO units, particularly those projects located in the bay area.

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

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

Investment properties - net increased by 11% from ₱309.23 billion as of 31 December 2017 to ₱343.42 billion as of 31 December 2018 primarily due to ongoing new mall projects, ongoing commercial building construction, including the Four E-Com Center and the ongoing redevelopment of SM Mall of Asia and other existing malls. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects.

Property and equipment – net decreased by 5% from ₱1.49 billion to ₱1.42 billion as of 31 December 2017 and 31 December 2018, respectively, primarily due to depreciation expense for the period, net of acquisitions.

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

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

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

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

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

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

Liability for purchased land - net of current portion increased to ₱6.04 billion as of 31 December 2018 from ₱2.17 billion as of 31 December 2017 due to landbanking.

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

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

As at 31 December 2018 and 2017, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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.

## KEY PERFORMANCE INDICATORS

The following are the major financial ratios of the Issuer as at and for the years ended 31 December 2018, 2019, and 2020, and as at and for the six-month period ended 30 June 2021:

|                    | Year ended 31 December |       |       | Six months ended 30 June |
|--------------------|------------------------|-------|-------|--------------------------|
|                    | 2018                   | 2019  | 2020  | 2021                     |
| Current ratio      | 1.45                   | 1.60  | 1.16  | 1.39                     |
| Acid test ratio    | 0.85                   | 0.93  | 0.66  | 0.76                     |
| Solvency ratio     | 1.86                   | 1.83  | 1.75  | 1.75                     |
| Debt to Equity     | 45:55                  | 44:56 | 47:53 | 47:53                    |
| Net Debt to Equity | 40:60                  | 40:60 | 44:56 | 45:55                    |
| Return on Equity   | 12%                    | 13%   | 6%    | 7%                       |

|                                 |      |      |      |      |
|---------------------------------|------|------|------|------|
| Debt to EBITDA                  | 3.89 | 3.56 | 6.94 | 6.73 |
| Asset to equity ratio           | 2.19 | 2.22 | 2.34 | 2.34 |
| Interest Service Coverage Ratio | 7.59 | 7.56 | 4.57 | 5.94 |
| Return on Investment Properties | 12%  | 12%  | 5%   | 6%   |

The Company's key financial indicators are measured in terms of the following:

- (1) Current ratio which measures the ratio of total current assets to total current liabilities;
- (2) Acid test ratio which measures total current assets less real estate inventories and prepaid expenses to total current liabilities;
- (3) Debt to Equity ratio which measures the ratio of interest-bearing liabilities to equity attributable to equity holders of the Parent;
- (4) Net Debt to Equity which measures the ratio of interest-bearing liabilities net of cash and cash equivalents to equity attributable to equity holders of the Parent;
- (5) Solvency ratio which measures the ratio of total assets to total liabilities;
- (6) Asset to equity ratio which measures the ratio of total assets to total equity attributable to equity holders of the Parent;
- (7) Interest Service Coverage ratio which measures the ratio of EBITDA to interest expense;
- (8) Debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities;
- (9) Return on Equity which measures the ratio of net income attributable to the equity holders of the Parent to average total equity attributable to the equity holders of the Parent; and
- (10) Return on Investment Properties which measures the ratio of net income attributable to the equity holders of the Parent to total average investment properties (excluding construction in progress).

### **Loan Agreements**

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 0.80:0.20 and interest coverage ratio of not less than 2.50:1.00 and material change in ownership or control where the Company should ensure that its controlling shareholder shall, directly or indirectly, continue to maintain, own and control more than fifty percent (50%) of the voting outstanding capital stock of the Company until the full and complete payment.

### **Expansion Plans / Prospects for the Future**

In relation thereto, the authority to approve resolutions in relation to transactions in the normal course of business of the Company, including additional capital expenditures for new projects and mall expansions, has been delegated by the Board of Directors to the Executive Committee. The Executive Committee meets and approves resolutions regularly.

SM Prime's malls business unit has seventy-six shopping malls in the Philippines with 8.7 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area.

SM Prime has fifty-five residential projects, forty-three of which are in Metro Manila and twelve are outside Metro Manila as of June 30, 2021. For 2021, SM Prime is scheduled to launch 15,000 to 18,000 residential units that includes high-rise and mid-rise buildings located in Metro Manila.

SM Prime's Commercial Properties Group has twelve office buildings with a combined gross floor area of approximately 736,000 square meters.

SM Prime's hotels and convention centers business unit currently has a portfolio of five convention centers, two trade halls and eight hotels with over 2,100 rooms.

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.

*Impact of COVID-19 on the Operations of the Company and its Innovation and Strengthening of Services to Address Impact of COVID-19*

SM Prime is committed in providing a safe environment to all its stakeholders by strict observance of health and safety protocols across all its developments. The Company supports the national government's vaccination program in its malls nationwide as well as providing free inoculation to thousands of its employees.

The reimplementing of ECQ in the Metro Manila, Bulacan, Cavite, Laguna, and Rizal (NCR-plus Bubble) in 2021 has caused lower mall activities in the mentioned areas. The Company intensifies its online strategy with the introduction of an e-commerce platform that allows its tenants to complement physical stores inside SM malls with an online interface for its customers, as well as providing pick-up points within the mall for online sales of its tenants.

The Company's residential business continued to report positive performance in the first half of 2021. Construction works on SM Prime's new and latest residential projects remain ongoing while following safety protocols implemented by the national government. It continuously adjusts its market reach by maximizing various digital sales platforms and offering flexible payment terms to buyers.

The Company's office business continues to operate at optimal level, while the Company's hotels and convention centers' operations follow guidelines set by the IATF. SM Prime's hotels, and convention centers opened the south wing of Park Inn by Radisson Clark in the first half of 2021, which added 100 new rooms to the Company's hotel portfolio.

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

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Issuer is not in default or in breach of any note, loan, lease or other indebtedness or financing arrangement.

There are no significant amounts of the Issuer's trade payables that have not been paid within the stated trade terms.

## TAXATION

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

### **Philippine Taxation**

On 1 January 2018, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" ("TRAIN") Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax. While the TRAIN Act brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This was addressed in the second package of the Comprehensive Tax Reform Program ("CTRP") or Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"), which was signed into law on 26 March 2021, amending provisions of the Tax Code, related to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

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

### **TAXATION OF INTEREST**

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

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

## **TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE**

The BIR has issued Revenue Memorandum Order No. 14-2021 ("RMO No. 14-2021") to streamline the procedures and documents for the availment of treaty benefits covering all items of income, derived by non-resident taxpayers from Philippine sources that are entitled to relief from double taxation under the relevant tax treaty. Under this regulation, when the treaty rates have been applied by the withholding agent on the income earned by the non-resident, the former shall file with the International Tax Affairs Division ("ITAD") of the BIR a request for confirmation on the propriety of the withholding tax rates applied on that item of income. On the other hand, if the regular rates have been imposed on the said income, the non-resident shall file a tax treaty relief application ("TTRA") with ITAD. The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. The request for confirmation or TTRA shall be supported by the documentary requirements under RMO No. 14-2021.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess withholding tax.

If a company withholds the regular tax rate instead of the reduced rate applicable under an income tax treaty, a non-resident holder of the company's shares may file a claim for a refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

The claim for refund may be filed independently of, or simultaneously with, the TTRA. If the claim was not filed simultaneously with the TTRA, the office where it was filed shall coordinate with, and defer to, ITAD the resolution of the non-resident's entitlement to treaty benefit. If, on the other hand, the claim was filed simultaneously with the TTRA, it shall be the responsibility of the ITAD to endorse the claim for refund to the proper office that handles the processing of tax refunds after the resolution of the TTRA. At any rate, all issues relating to the application and implementation of treaty provisions shall fall within the exclusive jurisdiction of the ITAD.

## **VALUE-ADDED TAX**

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

## **GROSS RECEIPTS TAX**

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

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

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

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in

accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

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

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

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

### **DOCUMENTARY STAMP TAX**

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

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

### **TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS**

#### **Income Tax**

Any gain realized from the sale, exchange or retirement of debt instruments as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals, beginning 1 July 2020, 25% for domestic and resident foreign corporations, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) ("MSMEs"), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32(A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.) On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 25%, if the holder is a non-resident foreign corporation. If the debt instrument are sold by a seller, who is an individual and who is not a dealer in securities, who has held the debt instrument for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

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

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

## **Estate and Donor's Tax**

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

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

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

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

## **Documentary Stamp Tax**

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

## **PARTIES TO THE OFFER**

### *Issuer*

**SM PRIME HOLDINGS, INC.**

### *Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters*

**BDO CAPITAL & INVESTMENT CORPORATION**

**CHINA BANK CAPITAL CORPORATION**

### *Joint Bookrunners and Joint Lead Underwriters*

**BDO CAPITAL & INVESTMENT CORPORATION**

**CHINA BANK CAPITAL CORPORATION**

**BPI CAPITAL CORPORATION**

**EAST WEST BANKING CORPORATION**

**FIRST METRO INVESTMENT CORPORATION**

**RCBC CAPITAL CORPORATION**

**SB CAPITAL INVESTMENT CORPORATION**

### *Trustee*

**PHILIPPINE NATIONAL BANK TRUST BANKING GROUP**

### *Registrar and Paying Agent*

**PHILIPPINE DEPOSITORY AND TRUST CORPORATION**

### *Legal Counsel to the Issuer*

***Issuer's Legal Affairs Division***

### *Legal Counsel to the Joint Bookrunners and Joint Lead Underwriters*

**ANGARA ABELLO CONCEPCION REGALA & CRUZ**

### *Independent Auditors*

**SYCIP GORRES VELAYO & Co.**

# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 4 - 0 0 0 0 8 8

### COMPANY NAME

S M P R I M E H O L D I N G S , I N C . A N D S U  
B S I D I A R I E S

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

1 0 t h F l o o r , M a l l o f A s i a A r e n a  
A n n e x B u i l d i n g , C o r a l W a y c o r  
. J . W . D i o k n o B l v d . , M a l l o f A  
s i a C o m p l e x , B r g y . 7 6 , Z o n e 1 0  
, C B P - 1 A , P a s a y C i t y , P h i l i p p i  
n e s

Form Type  
C F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's Email Address  
Company's Telephone Number 8831-1000  
Mobile Number  
No. of Stockholders 2,395  
Annual Meeting (Month / Day)  
Fiscal Year (Month / Day) December 31

### CONTACT PERSON INFORMATION

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

Name of Contact Person John Nai Peng C. Ong  
Email Address john.ong@smprime.com  
Telephone Number/s 8831-1000  
Mobile Number

### CONTACT PERSON'S ADDRESS

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

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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



## INDEPENDENT AUDITOR'S REPORT

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

### 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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 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.



### *Accounting for Lease Concession*

In 2020, the Company granted various lease concessions such as lease payment holidays or lease payment reduction to the lessees of its commercial spaces as a response to the laws and regulations issued by the government mandating the granting of certain lease concession during the coronavirus pandemic. The Company evaluated that the lease concessions do not qualify as a lease modification and accounted for these in the form of negative variable rent which the Company recorded when the concession is given regardless of the period to which the concession pertains. The Company's accounting of lease concession under PFRS 16 is significant to our audit because the Company has high volume of lease concessions granted during the period, the recorded amounts are material to the consolidated financial statements, and accounting for lease concession involves application of significant judgment and estimation in determining whether the lease concession will be accounted for as lease modification.

The disclosures related to the lease concession granted by the Company are included in Note 2 to the consolidated financial statements.

### *Audit Response*

We obtained an understanding of the type, extent and periods covered of the various lease concessions granted by the Company, including the determination of the population of the lease contracts covered by the lease concession granted by the Company during the period.

We tested the population of lease agreements by comparing the number of locations per operations report against the lease contract database.

On a test basis, we inspected the communications of the Company in connection with the lease concessions granted to the lessees and traced these contractual terms and conditions to the calculation of the financial impact of lease concession prepared by the management. We test computed the lease concession impact prepared by management on a sample basis.

We obtained management assessment and a legal opinion from the Company's internal counsel supporting the assessment that the lease concession granted does not qualify as a lease modification. We involved our internal specialist in evaluating the legal basis supporting the management assessment and legal position.

### *Real Estate Revenue Recognition*

The Company's real estate revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the output method as the measure of progress in determining revenue from sale of real estate; (4) determination of the actual costs incurred as cost of real estate sold; and (5) recognition of cost to obtain a contract.

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

In determining the actual costs incurred to be recognized as cost of real estate sold, the Company estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Company identifies sales commissions after contract inception as cost of obtaining a contract. For contracts which qualified for revenue recognition, the Company capitalizes the total sales commissions due to sales agent as cost 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 revenue recognition are included in Note 3 to the consolidated financial statements.

#### *Audit Response*

We obtained an understanding of the Company's real estate revenue recognition process.

For the buyer's 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. We also considered the impact of the coronavirus pandemic to the level of cancellations during the year.

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, including inquiries on how the coronavirus pandemic affected the POC during the period, 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 cost 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, 2020, 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, 2020 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. 08-001998-112-2020,

November 27, 2020, valid until November 26, 2023

PTR No. 8534387, January 4, 2021, Makati City

February 15, 2021



**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in Thousands)

|   | December 31  |              |
|---|--------------|--------------|
|   | 2020         | 2019         |
| <b>ASSETS</b>   |              |              |
| <b>Current Assets</b>   |              |              |
| Cash and cash equivalents (Notes 6, 20, 27 and 28)  | ₱30,661,614  | ₱34,599,959  |
| Receivables and contract assets (Notes 8, 15, 20, 27 and 28)  | 58,944,930   | 53,636,921   |
| Real estate inventories (Note 9)  | 43,691,877   | 43,946,109   |
| Equity instruments at fair value through other comprehensive income<br>(Notes 10, 20, 27 and 28)                          | 568,146      | 659,077      |
| Derivative assets (Notes 27 and 28)   | 2,747        | –            |
| Prepaid expenses and other current assets (Notes 11, 20, 27 and 28)   | 23,205,662   | 19,485,542   |
| Total Current Assets  | 157,074,976  | 152,327,608  |
| <b>Noncurrent Assets</b>  |              |              |
| Equity instruments at fair value through other comprehensive income -<br>net of current portion (Notes 10, 20, 27 and 28) | 16,131,568   | 20,420,959   |
| Investment properties (Notes 13, 18 and 26)   | 436,159,081  | 410,639,578  |
| Investments in associates and joint ventures (Note 14)  | 27,735,239   | 27,214,398   |
| Property and equipment - net (Notes 12 and 26)  | 1,311,208    | 1,383,320    |
| Deferred tax assets - net (Note 25)   | 831,546      | 903,845      |
| Derivative assets - net of current portion (Notes 27 and 28)  | –            | 826,315      |
| Other noncurrent assets (Notes 15, 20, 24, 27 and 28)   | 83,115,307   | 53,563,651   |
| Total Noncurrent Assets   | 565,283,949  | 514,952,066  |
|   | ₱722,358,925 | ₱667,279,674 |
| <b>LIABILITIES AND EQUITY</b>   |              |              |
| <b>Current Liabilities</b>  |              |              |
| Loans payable (Notes 16, 20, 27 and 28)   | ₱10,900,000  | ₱100,000     |
| Accounts payable and other current liabilities<br>(Notes 17, 20, 27 and 28)   | 81,033,985   | 70,125,750   |
| Current portion of long-term debt (Notes 18, 20, 27 and 28)   | 42,738,350   | 23,521,373   |
| Derivative liabilities (Notes 27 and 28)  | 357,662      | –            |
| Income tax payable  | 957,906      | 1,509,657    |
| Total Current Liabilities   | 135,987,903  | 95,256,780   |
| <b>Noncurrent Liabilities</b>   |              |              |
| Long-term debt - net of current portion (Notes 18, 20, 27 and 28)   | 218,830,647  | 214,333,050  |
| Tenants' and customers' deposits - net of current portion<br>(Notes 17, 26, 27 and 28)                                    | 21,331,869   | 21,646,217   |
| Liability for purchased land - net of current portion<br>(Notes 17, 27 and 28)  | 1,251,227    | 4,214,234    |
| Deferred tax liabilities - net (Note 25)  | 6,786,018    | 4,179,154    |
| Derivative liabilities - net of current portion (Notes 27 and 28)   | 2,445,735    | 711,617      |
| Other noncurrent liabilities (Notes 15, 17, 24, 27 and 28)  | 25,007,898   | 24,422,348   |
| Total Noncurrent Liabilities  | 275,653,394  | 269,506,620  |
| Total Liabilities (Carried Forward)   | 411,641,297  | 364,763,400  |

(Forward)



|   | <b>December 31</b>  |              |
|---|---------------------|--------------|
|   | <b>2020</b>         | 2019         |
| <b>Total Liabilities (Brought Forward)</b>  | <b>₱411,641,297</b> | ₱364,763,400 |
| <b>Equity Attributable to Equity Holders of the Parent</b>  |                     |              |
| Capital stock (Notes 19 and 29)   | <b>33,166,300</b>   | 33,166,300   |
| Additional paid-in capital - net (Notes 5 and 19)   | <b>38,022,913</b>   | 38,007,668   |
| Cumulative translation adjustment   | <b>1,524,439</b>    | 1,344,274    |
| Net fair value changes of equity instruments at fair value through other comprehensive income (Note 10) | <b>13,460,669</b>   | 17,840,990   |
| Net fair value changes on cash flow hedges (Note 28)  | <b>(1,769,030)</b>  | (1,328,167)  |
| Remeasurement loss on defined benefit obligation (Note 24)  | <b>(587,796)</b>    | (913,390)    |
| Retained earnings (Note 19):  |                     |              |
| Appropriated  | <b>42,200,000</b>   | 42,200,000   |
| Unappropriated  | <b>186,251,267</b>  | 173,583,191  |
| Treasury stock (Notes 19 and 29)  | <b>(2,984,695)</b>  | (2,984,695)  |
| Total Equity Attributable to Equity Holders of the Parent   | <b>309,284,067</b>  | 300,916,171  |
| <b>Non-controlling Interests</b> (Note 19)  | <b>1,433,561</b>    | 1,600,103    |
| Total Equity  | <b>310,717,628</b>  | 302,516,274  |
|   | <b>₱722,358,925</b> | ₱667,279,674 |

*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 |             |             |
|--|-------------------------|-------------|-------------|
|  | 2020                    | 2019        | 2018        |
| <b>REVENUE</b>                                 |                         |             |             |
| Rent (Notes 13, 20 and 26)                     | <b>₱32,013,024</b>      | ₱61,759,921 | ₱57,162,796 |
| Sales:   |                         |             |             |
| Real estate                                    | <b>46,973,399</b>       | 44,465,454  | 35,872,552  |
| Cinema and event ticket                        | <b>632,984</b>          | 5,548,469   | 5,218,434   |
| Others (Notes 20 and 21)                       | <b>2,279,891</b>        | 6,537,646   | 5,826,783   |
|  | <b>81,899,298</b>       | 118,311,490 | 104,080,565 |
| <b>COSTS AND EXPENSES</b> (Note 22)            | <b>52,825,112</b>       | 61,619,162  | 55,753,334  |
| <b>INCOME FROM OPERATIONS</b>                  | <b>29,074,186</b>       | 56,692,328  | 48,327,231  |
| <b>OTHER INCOME (CHARGES)</b>                  |                         |             |             |
| Interest expense (Notes 20, 23, 27 and 28)     | <b>(8,596,750)</b>      | (8,832,770) | (7,540,045) |
| Interest and dividend income                   |                         |             |             |
| (Notes 6, 7, 8, 10, 11, 15, 20 and 23)         | <b>1,207,227</b>        | 1,746,406   | 1,828,776   |
| Others - net (Notes 7, 14, 17, 18, 20 and 28)  | <b>779,078</b>          | (443,970)   | (649,787)   |
|  | <b>(6,610,445)</b>      | (7,530,334) | (6,361,056) |
| <b>INCOME BEFORE INCOME TAX</b>                | <b>22,463,741</b>       | 49,161,994  | 41,966,175  |
| <b>PROVISION FOR INCOME TAX</b> (Note 25)      |                         |             |             |
| Current  | <b>1,761,051</b>        | 9,282,069   | 8,534,428   |
| Deferred                                       | <b>2,562,953</b>        | 1,091,252   | 520,618     |
|  | <b>4,324,004</b>        | 10,373,321  | 9,055,046   |
| <b>NET INCOME</b>                              | <b>₱18,139,737</b>      | ₱38,788,673 | ₱32,911,129 |
| <b>Attributable to:</b>                        |                         |             |             |
| Equity holders of the Parent (Notes 19 and 29) | <b>₱18,006,512</b>      | ₱38,085,601 | ₱32,172,886 |
| Non-controlling interests (Note 19)            | <b>133,225</b>          | 703,072     | 738,243     |
|  | <b>₱18,139,737</b>      | ₱38,788,673 | ₱32,911,129 |
| Basic/Diluted earnings per share (Note 29)     | <b>₱0.624</b>           | ₱1.320      | ₱1.115      |
| Dividend per share (Note 19)                   | <b>₱0.185</b>           | ₱0.350      | ₱0.350      |

*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 |                    |                    |
|--|-------------------------|--------------------|--------------------|
|  | 2020                    | 2019               | 2018               |
| <b>NET INCOME</b>  | <b>₱18,139,737</b>      | <b>₱38,788,673</b> | <b>₱32,911,129</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |                         |                    |                    |
| 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) | (4,380,321)             | 1,635,574          | (5,287,209)        |
| Remeasurement gain (loss) on defined benefit obligation (Note 24)  | 329,172                 | (567,868)          | (152,405)          |
|  | <b>(4,051,149)</b>      | <b>1,067,706</b>   | <b>(5,439,614)</b> |
| Items that may be reclassified to profit or loss in subsequent periods:  |                         |                    |                    |
| Cumulative translation adjustment  | 180,165                 | (611,725)          | (154,746)          |
| Net fair value changes on cash flow hedges (Note 28)   | (440,863)               | (486,069)          | (530,669)          |
|  | <b>(4,311,847)</b>      | <b>(30,088)</b>    | <b>(6,125,029)</b> |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱13,827,890</b>      | <b>₱38,758,585</b> | <b>₱26,786,100</b> |
| <b>Attributable to:</b>  |                         |                    |                    |
| Equity holders of the Parent (Notes 19 and 29)   | <b>₱13,688,396</b>      | <b>₱38,058,471</b> | <b>₱26,050,908</b> |
| Non-controlling interests (Note 5)   | <b>139,494</b>          | <b>700,114</b>     | <b>735,192</b>     |
|  | <b>₱13,827,890</b>      | <b>₱38,758,585</b> | <b>₱26,786,100</b> |

*See accompanying Notes to Consolidated Financial Statements.*

**HOLDINGS, INC. AND SUBSIDIARIES**

**STATEMENTS OF CHANGES IN EQUITY**

**YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**

(in thousands)

|  | Equity Attributable to Equity Holders of the Parent |  |   |                                     |  |  |   |              |   |              | Non-controlling<br>Interest<br>(Note 5) |                |
|--|---|--|---|-------------------------------------|--|--|---|--------------|---|--------------|---|----------------|
|  | Capital Stock<br>(Notes 19<br>and 29)               | Additional<br>Paid-in<br>Capital - Net<br>(Notes 5 and 19) | Cumulative<br>Translation<br>Adjustment | Net fair value                      | Net Fair Value<br>Changes on<br>Cash Flow<br>Hedges<br>(Note 28) | Remeasurement<br>Loss on Defined<br>Benefit<br>Obligation<br>(Note 24) | Retained Earnings (Note 19)                           |              | Treasury<br>Stock<br>(Notes 19<br>and 29) | Total        |   |                |
|  |   |  |   | changes of equity<br>instruments at |  |  | through other<br>comprehensive<br>income<br>(Note 10) | Appropriated |   |              |   | Unappropriated |
|  |   |  |   | fair value                          |  |  | income  |              |   |              |   |                |
| 2020   | ₱33,166,300   | ₱38,007,668  | ₱1,344,274                              | ₱17,840,990                         | (₱1,328,167)   | (₱913,390)   | ₱42,200,000   | ₱173,583,191 | (₱2,984,695)                              | ₱300,916,171 | ₱1,600,100                              |                |
| Year   | -   | -  | -                                       | -                                   | -  | -  | -   | 18,006,512   | -   | 18,006,512   | 133,200                                 |                |
| Comprehensive income (loss)                  | -   | -  | 180,165                                 | (4,380,321)                         | (440,863)  | 322,903  | -   | -            | -   | (4,318,116)  | 6,200                                   |                |
| Income (loss) for the year                   | -   | -  | 180,165                                 | (4,380,321)                         | (440,863)  | 322,903  | -   | 18,006,512   | -   | 13,688,396   | 139,400                                 |                |
| 2019   | -   | -  | -                                       | -                                   | -  | -  | -   | (5,342,658)  | -   | (5,342,658)  | -                                       |                |
| Acquired by a subsidiary                     | -   | -  | -                                       | -                                   | -  | -  | -   | 4,222        | -   | 4,222        | -                                       |                |
| Acquired by non-controlling interests        | -   | -  | -                                       | -                                   | -  | -  | -   | -            | -   | -            | (288,100)                               |                |
| Controlling interest - net (Notes 2 and 5)   | -   | 15,245   | -                                       | -                                   | -  | 2,691  | -   | -            | -   | 17,936       | (17,900)                                |                |
| 2019   | ₱33,166,300   | ₱38,022,913  | ₱1,524,439                              | ₱13,460,669                         | (₱1,769,030)   | (₱587,796)   | ₱42,200,000   | ₱186,251,267 | (₱2,984,695)                              | ₱309,284,067 | ₱1,433,500                              |                |
| 2018   | ₱33,166,300   | ₱39,953,218  | ₱1,955,999                              | ₱19,084,597                         | (₱842,098)   | (₱348,480)   | ₱42,200,000   | ₱143,118,153 | (₱2,984,695)                              | ₱275,302,994 | ₱3,774,900                              |                |
| Year   | -   | -  | -                                       | -                                   | -  | -  | -   | 38,085,601   | -   | 38,085,601   | 703,000                                 |                |
| Net gain on equity instruments at fair value | -   | -  | -                                       | -                                   | -  | -  | -   | -            | -   | -            | -                                       |                |
| Comprehensive income                         | -   | -  | -                                       | (2,879,181)                         | -  | -  | -   | 2,879,181    | -   | -            | -                                       |                |
| Income (loss)                                | -   | -  | (611,725)                               | 1,635,574                           | (486,069)  | (564,910)  | -   | -            | -   | (27,130)     | (2,900)                                 |                |
| Income (loss) for the year                   | -   | -  | (611,725)                               | (1,243,607)                         | (486,069)  | (564,910)  | -   | 40,964,782   | -   | 38,058,471   | 700,100                                 |                |
| 2017   | -   | -  | -                                       | -                                   | -  | -  | -   | (10,507,731) | -   | (10,507,731) | -                                       |                |
| Acquired by a subsidiary                     | -   | -  | -                                       | -                                   | -  | -  | -   | 7,987        | -   | 7,987        | -                                       |                |
| Acquired by non-controlling interests        | -   | -  | -                                       | -                                   | -  | -  | -   | -            | -   | -            | (633,700)                               |                |
| Controlling interest - net (Notes 2 and 5)   | -   | (1,945,550)  | -                                       | -                                   | -  | -  | -   | -            | -   | (1,945,550)  | (2,241,200)                             |                |
| 2016   | ₱33,166,300   | ₱38,007,668  | ₱1,344,274                              | ₱17,840,990                         | (₱1,328,167)   | (₱913,390)   | ₱42,200,000   | ₱173,583,191 | (₱2,984,695)                              | ₱300,916,171 | ₱1,600,100                              |                |



Equity Attributable to Equity Holders of the Parent

|  | Capital Stock<br>(Notes 19<br>and 29) | Additional<br>Paid-in<br>Capital - Net<br>(Notes 5 and 19) | Cumulative<br>Translation<br>Adjustment | Net fair value<br>changes of equity<br>instruments at fair<br>value through<br>other<br>comprehensive<br>income<br>(Note 10) | Net Fair Value<br>Changes on<br>Cash Flow<br>Hedges<br>(Note 28) | Remeasurement<br>Gain (Loss) on<br>Defined Benefit<br>Obligation<br>(Note 24) | Retained Earnings (Note 19) |                     | Treasury<br>Stock<br>(Notes 19<br>and 29) | Total               | Non-controlling<br>Interests<br>(Note 5) |
|--|---------------------------------------|--|---|--|--|---|-----------------------------|---------------------|---|---------------------|--|
|  |                                       |  |   |  |  |   | Appropriated                | Unappropriated      |   |                     |  |
| Year ended December 31, 2018                 | ₱33,166,300                           | ₱ 39,662,168   | ₱2,110,745                              | ₱25,489,705  | (₱311,429)   | (₱199,126)  | ₱42,200,000                 | ₱120,125,945        | (₱3,287,087)                              | ₱258,957,221        | ₱3,916,600                               |
| Net gain on equity instruments at fair value | -                                     | -  | -                                       | -  | -  | -   | -                           | 32,172,886          | -   | 32,172,886          | 738,200                                  |
| Comprehensive income                         | -                                     | -  | -                                       | (1,117,899)  | -  | -   | -                           | 1,117,899           | -   | -                   | -  |
| Income (loss)                                | -                                     | -  | (154,746)                               | (5,287,209)  | (530,669)  | (149,354)   | -                           | -                   | -   | (6,121,978)         | (3,000,000)                              |
| Income (loss) for the year                   | -                                     | -  | (154,746)                               | (6,405,108)  | (530,669)  | (149,354)   | -                           | 33,290,785          | -   | 26,050,908          | 735,100                                  |
| Retained Earnings (Note 19)                  | -                                     | -  | -                                       | -  | -  | -   | -                           | (10,307,731)        | -   | (10,307,731)        | -  |
| Owned by a subsidiary                        | -                                     | -  | -                                       | -  | -  | -   | -                           | 9,154               | -   | 9,154               | -  |
| Owned by non-controlling interests           | -                                     | -  | -                                       | -  | -  | -   | -                           | -                   | -   | -                   | (576,200)                                |
| Shares held by subsidiary                    | -                                     | 282,816  | -                                       | -  | -  | -   | -                           | -                   | 302,392                                   | 585,208             | -  |
| Non-controlling interests (Notes 2 and 5)    | -                                     | 8,234  | -                                       | -  | -  | -   | -                           | -                   | -   | 8,234               | (300,000)                                |
| <b>2018</b>                                  | <b>₱33,166,300</b>                    | <b>₱39,953,218</b>   | <b>₱1,955,999</b>                       | <b>₱19,084,597</b>   | <b>(₱842,098)</b>  | <b>(₱348,480)</b>   | <b>₱42,200,000</b>          | <b>₱143,118,153</b> | <b>(₱2,984,695)</b>                       | <b>₱275,302,994</b> | <b>₱3,774,900</b>                        |

Refer to Consolidated Financial Statements.



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

|   | <b>Years Ended December 31</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2020</b>                    | <b>2019</b>  | <b>2018</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                |              |              |
| Income before income tax  | <b>₱22,463,741</b>             | ₱49,161,994  | ₱41,966,175  |
| Adjustments for:  |                                |              |              |
| Depreciation and amortization (Notes 22 and 26)   | <b>10,341,611</b>              | 10,825,078   | 9,655,426    |
| Interest expense (Note 23)  | <b>8,596,750</b>               | 8,832,770    | 7,540,045    |
| Interest and dividend income (Notes 6, 7, 8, 10, 11, 15, 20 and 23)   | <b>(1,207,227)</b>             | (1,746,406)  | (1,828,776)  |
| Equity in net earnings of associates and joint ventures (Note 14)   | <b>(694,473)</b>               | (1,492,093)  | (1,297,528)  |
| Loss (gain) on unrealized foreign exchange and fair value changes on derivatives - net                        | <b>(45,610)</b>                | 209,624      | 557,067      |
| Operating income before working capital changes   | <b>39,454,792</b>              | 65,790,967   | 56,592,409   |
| Decrease (increase) in:   |                                |              |              |
| Receivables and contract assets   | <b>(27,104,505)</b>            | (17,302,352) | (11,618,774) |
| Real estate inventories   | <b>2,409,763</b>               | (1,514,160)  | (2,124,966)  |
| Prepaid expenses and other current assets   | <b>(3,702,091)</b>             | (4,368,606)  | (557,890)    |
| Increase (decrease) in:   |                                |              |              |
| Accounts payable and other liabilities  | <b>8,783,131</b>               | 15,222,583   | 9,552,450    |
| Tenants' and customers' deposits  | <b>(334,662)</b>               | 3,045,680    | 2,306,209    |
| Cash generated from operations  | <b>19,506,428</b>              | 60,874,112   | 54,149,438   |
| Income tax paid   | <b>(2,316,144)</b>             | (9,146,530)  | (8,185,024)  |
| Net cash provided by operating activities   | <b>17,190,284</b>              | 51,727,582   | 45,964,414   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                |              |              |
| Interest received   | <b>1,009,478</b>               | 1,438,318    | 1,417,478    |
| Dividends received  | <b>385,916</b>                 | 615,349      | 577,014      |
| Additions to:   |                                |              |              |
| Investment properties (Note 13)   | <b>(37,559,444)</b>            | (51,267,038) | (40,351,989) |
| Property and equipment - net (Note 12)  | <b>(113,073)</b>               | (136,560)    | (126,355)    |
| Equity instruments at FVOCI (Note 10)   | <b>–</b>                       | (4)          | (5,826)      |
| Proceeds from sale of equity instruments and financial assets at FVOCI  | <b>–</b>                       | 4,100,955    | 3,023,585    |
| Investments in associates and joint ventures and acquisition of a subsidiary - net of cash acquired (Note 14) | <b>–</b>                       | 15,867       | (509,282)    |
| Increase in bonds and deposits and other noncurrent assets (Note 15)  | <b>(7,666,858)</b>             | (3,382,131)  | (28,102,681) |
| Net cash used in investing activities   | <b>(43,943,981)</b>            | (48,615,244) | (64,078,056) |

(Forward)



|   | <b>Years Ended December 31</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2020</b>                    | <b>2019</b>  | <b>2018</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |                                |              |              |
| Availments of bank loans and long-term debt<br>(Notes 16 and 18)        | <b>₱91,403,912</b>             | ₱42,393,638  | ₱54,115,835  |
| Payments of:  |                                |              |              |
| Long-term debt (Note 18)  | <b>(28,993,349)</b>            | (25,466,777) | (26,737,233) |
| Bank loans (Note 16)  | <b>(25,700,000)</b>            | (519,400)    | (475,000)    |
| Interest  | <b>(8,469,609)</b>             | (8,712,493)  | (7,193,222)  |
| Dividends (Note 19)   | <b>(5,338,436)</b>             | (11,133,444) | (10,874,777) |
| Lease liabilities (Notes 17 and 26)                                     | <b>(85,013)</b>                | (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   | -                              | -            | 585,207      |
| <b>Net cash provided by (used in) financing activities</b>              | <b>22,817,505</b>              | (7,310,020)  | 12,633,352   |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON<br/>CASH AND CASH EQUIVALENTS</b> |                                |              |              |
|   | <b>(2,153)</b>                 | 31,174       | (124,777)    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                        | <b>(3,938,345)</b>             | (4,166,508)  | (5,605,067)  |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>               |                                |              |              |
|   | <b>34,599,959</b>              | 38,766,467   | 44,371,534   |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>                     |                                |              |              |
|   | <b>₱30,661,614</b>             | ₱34,599,959  | ₱38,766,467  |

*See accompanying Notes to Consolidated Financial Statements.*



# SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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, 2020, 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 15, 2021.

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### 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 other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL) which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso, except when otherwise indicated.

The accompanying consolidated financial statements have been prepared under the going concern assumption. The Company believes that its business would remain relevant despite the challenges posed by the coronavirus 2019 (COVID-19) pandemic. While the pandemic may adversely impact the short-term business results, long-term prospects remain attractive.



### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the reliefs granted by the SEC under Memorandum Circular No. 14, Series of 2018 and Memorandum Circular No. 3, Series of 2019, to defer the implementation of the following accounting pronouncements until December 31, 2020. These accounting pronouncements address the issues of PFRS 15, *Revenue from Contracts with Customers*, affecting the real estate industry.

- *Deferral of the following provisions of Philippine Interpretations Committee (PIC) Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry*
  - a. Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04);
  - b. Treatment of land in the determination of the percentage-of-completion (POC);
  - c. Treatment of uninstalled materials in the determination of the POC (as amended by PIC Q&A 2020-02); and
  - d. Accounting for Common Usage Service Area (CUSA) charges
- *Deferral of the adoption of PIC Q&A 2018-14: Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05)*

The consolidated financial statements also include the availment of relief under SEC Memorandum Circular No. 4, Series of 2020, to defer the adoption of *IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23, Borrowing Cost*, (the IFRIC Agenda Decision on Borrowing Cost) until December 31, 2020.

In December 2020, the SEC issued Memorandum Circular No. 34, Series of 2020, allowing the further deferral of the adoption of provisions (a) and (b) above of *PIC Q&A 2018-12* and the IFRIC Agenda Decision on Borrowing Cost, for another other (three) 3 years or until December 31, 2023.

The details and the impact of the adoption of the above financial reporting reliefs are discussed in Note 3 to the consolidated financial statements.

### Basis of Consolidation

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

| Company   | Country of Incorporation     | Percentage of Ownership |       |
|---|------------------------------|-------------------------|-------|
|   |                              | 2020                    | 2019  |
| <b><i>Mall</i></b>  |                              |                         |       |
| First Asia Realty Development Corporation                         | Philippines                  | <b>74.2</b>             | 74.2  |
| Premier Central, Inc. and Subsidiary (PCI)                        | - do -                       | <b>100.0</b>            | 100.0 |
| Consolidated Prime Dev. Corp.                                     | - do -                       | <b>100.0</b>            | 100.0 |
| Premier Southern Corp. (PSC)                                      | - do -                       | <b>100.0</b>            | 100.0 |
| San Lazaro Holdings Corporation                                   | - do -                       | <b>100.0</b>            | 100.0 |
| Southernpoint Properties Corp.                                    | - do -                       | <b>100.0</b>            | 100.0 |
| First Leisure Ventures Group Inc. (FLVGI)                         | - do -                       | <b>50.0</b>             | 50.0  |
| CHAS Realty and Development Corporation and Subsidiaries          | - do -                       | <b>100.0</b>            | 100.0 |
| Affluent Capital Enterprises Limited and Subsidiaries (Affluent)* | British Virgin Islands (BVI) | -                       | 100.0 |
| Mega Make Enterprises Limited and Subsidiaries (Mega Make)*       | - do -                       | -                       | 100.0 |
| Springfield Global Enterprises Limited                            | - do -                       | <b>100.0</b>            | 100.0 |



| Company   | Country of Incorporation | Percentage of Ownership |       |
|---|--------------------------|-------------------------|-------|
|   |                          | 2020                    | 2019  |
| 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 Corp. 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                   | 100.0 |
| 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                   | 100.0 |
| Supermalls Transport Services, Inc. (STSI)                          | - do -                   | 100.0                   | 100.0 |
| <b>Residential</b>  |                          |                         |       |
| 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 |
| <b>Commercial</b>   |                          |                         |       |
| 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                   | 100.0 |
| SM Smart City Infrastructure and Development Corporation            | - do -                   | 100.0                   | -     |
| <b>Hotels and Convention Centers</b>                                |                          |                         |       |
| SM Hotels and Conventions Corp. and Subsidiaries                    | - do -                   | 100.0                   | 100.0 |

\*Entities folded under SM Land China through intra-group restructuring (Note 5)

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 are 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 ₱32,013 million, ₱61,760 million and ₱57,163 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 26).

*Lease Modification - as Lessor.* Throughout the government-imposed community quarantine, the Company waived rentals and other charges amounting to ₱23,299 million which significantly reduced rental income. Such rental waivers are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

*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 in December 31, 2018 (see Note 22).

*On or after January 1, 2019*

*Determining the Lease Term of Contract.* The Company applies judgment 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 an 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 Company concluded that revenue from sale of real estate is to be recognized over time because (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

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.

Revenue from sale of real estate amounted to ₱46,973 million, ₱44,465 million and ₱35,873 million for the years ended December 31, 2020, 2019, and 2018, respectively, while the cost of real estate sold amounted to ₱20,578 million, ₱20,794 million and ₱17,769 million for the years ended December 31, 2020, 2019 and 2018, 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 ₱1,066 million and ₱1,054 million as at December 31, 2020 and December 31, 2019, 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 ₱43,692 million and ₱43,946 million as at December 31, 2020 and 2019, 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 ₱412,971 million and ₱390,356 million as at December 31, 2020 and 2019, 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.



There was no impairment on other nonfinancial assets for each of the three years in the period ended December 31, 2020. 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 ₱546,964 million and ₱490,388 million as at December 31, 2020 and 2019, 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) over regular corporate income tax (RCIT) 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 ₱832 million and ₱904 million as at December 31, 2020 and 2019, 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 Company estimates the IBR using the available market interest rates adjusted with the Company's credit rating.

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### 3. Summary of Significant Accounting and Financial Reporting Policies

#### Changes in Accounting Policies and Disclosures

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, 2020.



Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 3, *Definition of a Business*, clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

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

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*, provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The Company adopted these amendments to its floating rate loans linked to United States Dollar (USD) London Inter-Bank Offered Rate (LIBOR) which the Company designated as hedged items in cash flow hedges using cross-currency swaps and interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to interest rate benchmark reforms.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*, provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *Leases, COVID-19-Related Rent Concessions*, provide relief to the lessees for applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;



- Any reduction in lease payments affects only payments originally on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concessions in the same way it would account for a change that is not a lease modification, i. e., as a variable lease payment.

The amendments are effective for annual reporting periods on or after June 1, 2020.

The Company adopted the amendments beginning January 1, 2020. Adoption of these amendments for rent concessions on certain land leases of the Company due to COVID-19. Rental concession for the year ended December 31, 2020 was recorded as reduction to rent expense.

- *Adoption of PIC Q&A 2020-03, Q&A No. 2018-12-D: STEP 3 - On the Accounting of the Difference When the Percentage of Completion is Ahead of the Buyer's Payment.* PIC Q&A 2020-03 was issued by the PIC on September 30, 2020 aims to provide an additional option to the preparers of financial statements to present as receivables, the difference between the POC and the buyer's payment, with the POC being ahead. This PIC Q&A is consistent with the PIC guidance issued to the real estate industry in September 2019.

#### Future Changes in Accounting Policies and Disclosures

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.

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*, provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Company shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply prospectively, however, the Company is not required to restate prior periods.

The following amendments to the hedge designation documentations (allowed until the end of the reporting period during which a change in the interest basis is made) will not result in the discontinuance of their hedge accounting: (1) designating RFR as the hedged risk; and



(2) description of the hedged item and/or hedging instrument to reflect the RFR. When the description of the hedged item is amended, amounts accumulated in cash flow hedge reserve are deemed to be based on RFR, i.e., amount will be released to profit or loss in the same period or periods in which the hedged RFR cash flows affect profit or loss.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*, intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*, prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*, specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

*Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*, permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.



- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The standard will be applicable to future accounting for modifications of financial liabilities of the Company.

- Amendments to PAS 41, *Agriculture, Taxation in Fair Value Measurements*, removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*, clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The standard will affect the future classification of liabilities as current or noncurrent when there are future deferral of settlement of the Company's financial liabilities.

- PFRS 17, *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions 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, 2023, 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.

- Deferral of Certain Provisions of PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)*. 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 until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC Memorandum Circular No. 34, Series of 2020, which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral and the related deferral period follows:

|  | Deferral Period            |
|--|----------------------------|
| a. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04) | Until<br>December 31, 2023 |
| b. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E  | Until<br>December 31, 2023 |
| c. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)               | Until<br>December 31, 2020 |
| d. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H  | Until<br>December 31, 2020 |

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04, which provides additional guidance on determining whether the transaction price includes a significant financing component.
- PIC Q&A 2020-02, which provides additional guidance on determining which uninstalled materials should not be included in calculating the POC.



After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

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

- *IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs).* In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is/will be recognized over time under paragraph 35(c) of IFRS 15 (PFRS 15). IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23, *Borrowing Costs*, considering that these inventories are ready for their intended sale in their current condition.

On February 11, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Further, on December 15, 2020, the Philippine SEC issued SEC MC No. 34, Series of 2020, which extends the relief on the application of the IFRIC Agenda Decision provided to the real estate industry until December 31, 2023. Effective January 1, 2024, the real estate industry will adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC Agenda Decision.

The Company opted to avail of the relief as provided by the SEC. The adoption of the IFRIC Agenda Decision is not expected to have significant impact on the consolidated financial statements.

- *Deferral of PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05).* On June 27, 2018, PIC Q&A 2018-14 was issued providing guidance on accounting for cancellation of real estate sales. Under SEC Memorandum Circular No. 3, Series of 2019, the adoption of PIC Q&A No. 2018-14 was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-14 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

On November 11, 2020, PIC Q&A 2020-05 was issued which supersedes PIC Q&A 2018-14. This PIC Q&A adds a new approach where the cancellation is accounted for as a modification of the contract (i.e., from non-cancellable to being cancellable). Under this approach, revenues and related costs previously recognized shall be reversed in the period of cancellation and the inventory shall be reinstated at cost. PIC Q&A 2020-05 will have to be applied prospectively from approval date of the Financial Reporting Standards Council which was November 11, 2020.

The Company availed of the SEC relief to defer the adoption of this PIC Q&A until December 31, 2020. The adoption of this PIC Q&A is not expected to have significant impact on the consolidated financial statements.

As prescribed by SEC Memorandum Circular No. 34, Series of 2020, for financial reporting periods beginning on or after January 1, 2021, the availment of the above deferral will impact the Company's financial reporting during the period of deferral.



Upon full adoption of the above deferred guidance, the accounting policies will have to be applied using full retrospective approach following the guidance under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### 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

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 effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The 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 ₱1,356 million and ₱2,413 million as at December 31, 2020 and 2019, 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 ₱3 million and ₱826 million as at December 31, 2020 and 2019, 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 other comprehensive income (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 ₱16,700 million and ₱21,080 million as at December 31, 2020 and 2019, respectively (see Note 28).

*Modification of financial assets.* The Company derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded. The Company considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

*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 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.

### *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 ₱2,803 million and ₱712 million as at December 31, 2020 and 2019, 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 ₱257,361 million and ₱258,681 million as at December 31, 2020 and 2019, 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.

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 effectiveness 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”.

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 to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, deposits, cash in escrow, prepayments, supplies and inventories and others. Advances to suppliers and contractors and advances for project developments 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,<br>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 years | or term of the lease<br>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 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,<br>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.

#### 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.* 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 judgment, 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.

#### Management Fees

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

#### General, Administrative and Other Expenses

Costs and expenses are recognized as incurred.

#### Pension Benefits

The Company is a participant in the SM Corporate and Management Companies Employer.



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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

#### Foreign Currency-denominated Transactions

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



### Foreign Currency Translation

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

### Leases

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

*Company as 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.

*Lease Modification.* Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. If a change in lease payments does not meet the definition of a lease modification, that change would generally be accounted for as a negative variable lease payment. In the case of an operating lease, a lessor recognizes the effect of the rent concession by recognizing lower income from leases.

### *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.

#### Provisions

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

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use 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.

### Taxes

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

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

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

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

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

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

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



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

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

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

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

#### Business Segments

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

#### Basic/Diluted Earnings Per Common Share (EPS)

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

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

#### Contingencies

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

#### Events after the Reporting Period

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

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#### 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

|                                    | 2020                  |                     |                    |                                     |                     |                          |
|------------------------------------|-----------------------|---------------------|--------------------|-------------------------------------|---------------------|--------------------------|
|                                    | Mall                  | Residential         | Commercial         | Hotels and<br>Convention<br>Centers | Eliminations        | Consolidated<br>Balances |
|                                    | <i>(In Thousands)</i> |                     |                    |                                     |                     |                          |
| Revenue:                           |                       |                     |                    |                                     |                     |                          |
| External customers                 | ₱28,133,013           | ₱47,476,884         | ₱4,709,187         | ₱1,580,214                          | ₱-                  | ₱81,899,298              |
| Inter-segment                      | 129,575               | -                   | 69,958             | 2,672                               | (202,205)           | -                        |
|                                    | <b>₱28,262,588</b>    | <b>₱47,476,884</b>  | <b>₱4,779,145</b>  | <b>₱1,582,886</b>                   | <b>(₱202,205)</b>   | <b>₱81,899,298</b>       |
| Segment results:                   |                       |                     |                    |                                     |                     |                          |
| Income (loss) before income tax    | ₱3,397,809            | ₱16,910,196         | ₱3,629,553         | (₱1,019,638)                        | (₱454,179)          | ₱22,463,741              |
| Provision for income tax           | (1,053,609)           | (3,089,875)         | (180,520)          | -                                   | -                   | (4,324,004)              |
| Net income                         | <b>₱2,344,200</b>     | <b>₱13,820,321</b>  | <b>₱3,449,033</b>  | <b>(₱1,019,638)</b>                 | <b>(454,179)</b>    | <b>₱18,139,737</b>       |
| Net income (loss) attributable to: |                       |                     |                    |                                     |                     |                          |
| Equity holders of the Parent       | ₱2,210,183            | ₱13,821,113         | ₱3,449,033         | (₱1,019,638)                        | (₱454,179)          | ₱18,006,512              |
| Non-controlling interests          | 134,017               | (792)               | -                  | -                                   | -                   | 133,225                  |
| Segment assets                     | <b>₱393,412,575</b>   | <b>₱254,869,649</b> | <b>₱61,567,161</b> | <b>₱14,067,315</b>                  | <b>(₱1,557,775)</b> | <b>₱722,358,925</b>      |
| Segment liabilities                | <b>₱258,218,748</b>   | <b>₱147,833,429</b> | <b>₱6,230,590</b>  | <b>₱916,305</b>                     | <b>(₱1,557,775)</b> | <b>₱411,641,297</b>      |
| Other information:                 |                       |                     |                    |                                     |                     |                          |
| Capital expenditures               | ₱26,033,777           | ₱24,823,848         | ₱7,393,535         | ₱1,337,054                          | ₱-                  | ₱59,588,214              |
| Depreciation and amortization      | 8,872,299             | 149,450             | 680,133            | 639,729                             | -                   | 10,341,611               |



| 2019                          |              |              |             |                                     |              |                          |
|-------------------------------|--------------|--------------|-------------|-------------------------------------|--------------|--------------------------|
|                               | Mall         | Residential  | Commercial  | Hotels and<br>Convention<br>Centers | Eliminations | Consolidated<br>Balances |
| <i>(In Thousands)</i>         |              |              |             |                                     |              |                          |
| Revenue:                      |              |              |             |                                     |              |                          |
| External customers            | P63,540,287  | P45,213,765  | P4,510,820  | P5,046,618                          | P-           | P118,311,490             |
| Inter-segment                 | 85,072       | -            | 74,100      | 13,662                              | (172,834)    | -                        |
|                               | P63,625,359  | P45,213,765  | P4,584,920  | P5,060,280                          | (P172,834)   | P118,311,490             |
| Segment results:              |              |              |             |                                     |              |                          |
| Income before income tax      | P30,418,637  | P15,020,332  | P3,661,683  | P1,074,405                          | (P1,013,063) | P49,161,994              |
| Provision for income tax      | (7,020,933)  | (2,428,262)  | (658,358)   | (265,768)                           | -            | (10,373,321)             |
| Net income                    | P23,397,704  | P12,592,070  | P3,003,325  | P808,637                            | (P1,013,063) | P38,788,673              |
| Net income attributable to:   |              |              |             |                                     |              |                          |
| Equity holders of the Parent  | P22,701,115  | P12,585,587  | P3,003,325  | P808,637                            | (P1,013,063) | P38,085,601              |
| Non-controlling interests     | 696,589      | 6,483        | -           | -                                   | -            | 703,072                  |
| Segment assets                | P388,653,151 | P217,788,016 | P51,340,770 | P13,573,854                         | (P4,076,117) | P667,279,674             |
| Segment liabilities           | P237,486,362 | P124,277,871 | P5,982,687  | P1,092,597                          | (P4,076,117) | P364,763,400             |
| Other information:            |              |              |             |                                     |              |                          |
| Capital expenditures          | P29,283,828  | P27,578,564  | P10,216,823 | P1,618,631                          | P-           | P68,697,846              |
| Depreciation and amortization | 9,514,073    | 143,438      | 560,854     | 606,713                             | -            | 10,825,078               |
| 2018                          |              |              |             |                                     |              |                          |
|                               | Mall         | Residential  | Commercial  | Hotels and<br>Convention<br>Centers | Eliminations | Consolidated<br>Balances |
| <i>(In Thousands)</i>         |              |              |             |                                     |              |                          |
| Revenue:                      |              |              |             |                                     |              |                          |
| External customers            | P59,188,798  | P36,519,311  | P3,504,224  | P4,868,232                          | P-           | P104,080,565             |
| Inter-segment                 | 88,489       | -            | 73,856      | 85                                  | (162,430)    | -                        |
|                               | P59,277,287  | P36,519,311  | P3,578,080  | P4,868,317                          | (P162,430)   | P104,080,565             |
| Segment results:              |              |              |             |                                     |              |                          |
| Income before income tax      | P27,413,548  | P10,664,058  | P2,864,711  | P1,179,145                          | (P155,287)   | P41,966,175              |
| Provision for income tax      | (6,816,792)  | (1,448,652)  | (510,274)   | (279,328)                           | -            | (9,055,046)              |
| Net income                    | P20,596,756  | P9,215,406   | P2,354,437  | P899,817                            | (P155,287)   | P32,911,129              |
| Net income attributable to:   |              |              |             |                                     |              |                          |
| Equity holders of the Parent  | P19,869,360  | P9,204,559   | P2,354,437  | P899,817                            | (P155,287)   | P32,172,886              |
| Non-controlling interests     | 727,396      | 10,847       | -           | -                                   | -            | 738,243                  |
| Segment assets                | P366,324,387 | P186,098,844 | P40,308,522 | P12,278,302                         | (P875,737)   | P604,134,318             |
| Segment liabilities           | P212,781,100 | P108,996,681 | P3,163,510  | P990,802                            | (P875,737)   | P325,056,356             |
| Other information:            |              |              |             |                                     |              |                          |
| Capital expenditures          | P28,991,530  | P57,128,644  | P4,213,470  | P820,890                            | P-           | P91,154,534              |
| Depreciation and amortization | 8,495,514    | 156,599      | 446,646     | 556,667                             | -            | 9,655,426                |

For the years ended December 31, 2020, 2019 and 2018, 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.

#### Seasonality

Except for the significant impact of COVID-19 pandemic to the Company's operations starting March 2020, there were no other trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.



## 5. Acquisition of Non-controlling Interest and Business Combinations

### Business Combination

In December 2020, the Parent Company entered into a Share Purchase Agreement with its wholly owned subsidiary, SM Land China, and transferred its 100% interest in Affluent and Mega Make in exchange for SM Land China's 1,000 ordinary shares and 1 ordinary share, respectively. The Company recorded the additional investment in SM Land China at the carrying value of the asset given up and treated the transaction as common control business combination.

### Acquisition of Non-controlling Interest

In December 2020, the Company (through Landfactors Incorporated, a wholly owned subsidiary of SMDC) purchased additional 12,500 common shares of Greenmist Property Management Corporation for a total consideration of ₱2 million increasing its ownership from 91.67% to 100%. The transaction was accounted for as an equity transaction since there was no change in control.

In December 2019, the Parent Company acquired the remaining 49% stake in STSI for ₱25 million, increasing the total ownership of the Company to 100%.

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.

## 6. Cash and Cash Equivalents

This account consists of:

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Cash on hand and in banks (see Note 20) | <b>₱12,484,610</b>    | ₱4,564,399  |
| Temporary investments (see Note 20)     | <b>18,177,004</b>     | 30,035,560  |
|   | <b>₱30,661,614</b>    | ₱34,599,959 |

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 ₱900 million, ₱1,304 million and ₱1,297 million for the years ended December 31, 2020, 2019 and 2018, 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 was recognized in other comprehensive income.

Dividend income earned amounted to ₱18 million for the year ended December 31, 2018.

## 8. Receivables and Contract Assets

This account consists of:

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Trade (billed and unbilled):  |                       |             |
| Sale of real estate*  | <b>₱97,140,164</b>    | ₱66,604,837 |
| Rent:   |                       |             |
| Third parties   | <b>5,161,293</b>      | 6,347,182   |
| Related parties (see Note 20)   | <b>2,249,505</b>      | 3,733,761   |
| Others (see Note 20)  | <b>28,429</b>         | 40,754      |
| Nontrade  | <b>50,548</b>         | 241,413     |
| Accrued interest (see Note 20)  | <b>129,226</b>        | 128,743     |
| Others (see Note 20)  | <b>2,068,588</b>      | 2,474,556   |
|   | <b>106,827,753</b>    | 79,571,246  |
| Less allowance for ECLs   | <b>1,066,130</b>      | 1,053,549   |
|   | <b>105,761,623</b>    | 78,517,697  |
| Less noncurrent portion of trade receivables from sale of real estate (see Note 15) | <b>46,816,693</b>     | 24,880,776  |
|   | <b>₱58,944,930</b>    | ₱53,636,921 |

\*Includes unbilled revenue from sale of real estate amounting to ₱86,631 million and ₱59,903 million as at December 31, 2020 and 2019, 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 pertain to sold real estate inventories at various terms of payments, which are noninterest-bearing.

The Company assigned billed and unbilled receivables from sale of real estate on a without recourse basis to local banks amounting to ₱7,170 million and ₱7,689 million for the years ended December 31, 2020 and 2019, respectively (see Note 20).

The Company also has assigned billed and unbilled receivables from real estate on a with recourse basis to local banks with outstanding balance of ₱1,809 million and ₱1,986 million as at December 31, 2020 and 2019, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates of 4.25% to 4.50% both in 2020 and 2019. The fair value of the assigned receivables and liability from assigned receivables approximates their costs.

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



Interest income earned from receivables totaled ₱65 million, ₱92 million and ₱75 million for the years ended December 31, 2020, 2019 and 2018, 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:

|                      | 2020                  | 2019       |
|----------------------|-----------------------|------------|
|                      | <i>(In Thousands)</i> |            |
| At beginning of year | <b>₱1,053,549</b>     | ₱1,034,040 |
| Provision - net      | <b>12,581</b>         | 19,509     |
| At end of year       | <b>₱1,066,130</b>     | ₱1,053,549 |

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

|                               | 2020                  | 2019        |
|-------------------------------|-----------------------|-------------|
|                               | <i>(In Thousands)</i> |             |
| Neither past due nor impaired | <b>₱92,546,447</b>    | ₱70,428,499 |
| Past due but not impaired:    |                       |             |
| Less than 30 days             | <b>1,476,075</b>      | 3,000,288   |
| 31-90 days                    | <b>2,162,134</b>      | 2,890,044   |
| 91-120 days                   | <b>3,692,283</b>      | 650,958     |
| Over 120 days                 | <b>5,884,684</b>      | 1,547,908   |
| Impaired                      | <b>1,066,130</b>      | 1,053,549   |
|                               | <b>₱106,827,753</b>   | ₱79,571,246 |

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 ₱28,108 million and ₱11,424 million as at December 31, 2020 and 2019, 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<br>Development | Condominium<br>Units for Sale | Residential Units<br>and Subdivision<br>Lots | Total        |
|--|-------------------------|-------------------------------|--|--------------|
|  | <i>(In Thousands)</i>   |                               |  |              |
| 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) |

*(Forward)*



|   | Land and<br>Development | Condominium<br>Units for Sale | Residential Units<br>and Subdivision<br>Lots | Total              |
|---|-------------------------|-------------------------------|--|--------------------|
| <i>(In Thousands)</i>   |                         |                               |  |                    |
| Transfers   | (₱4,089,397)            | ₱3,947,179                    | ₱142,218                                     | ₱-                 |
| Reclassifications from investment<br>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         |
| Development cost incurred                                     | 18,139,127              | -                             | -  | 18,139,127         |
| Cost of real estate sold (see Note 22)                        | (18,447,010)            | (2,057,496)                   | (73,900)                                     | (20,578,406)       |
| Transfers   | (4,850,263)             | 4,849,029                     | 1,234  | -                  |
| Reclassifications from investment<br>properties (see Note 13) | 2,031,711               | -                             | -  | 2,031,711          |
| Translation adjustment and others                             | 123,820                 | -                             | 29,516                                       | 153,336            |
| <b>Balance as at December 31, 2020</b>                        | <b>₱34,928,317</b>      | <b>₱8,671,888</b>             | <b>₱91,672</b>                               | <b>₱43,691,877</b> |

Land and development pertains to the Company's on-going residential units and condominium projects. Estimated cost to complete the projects amounted to ₱106,679 million and ₱74,238 million as at December 31, 2020 and 2019, respectively.

Condominium and residential units for sale pertain to completed projects. These are stated at cost as at December 31, 2020 and 2019.

Contract fulfillment assets, included under land and development, mainly pertain to unamortized portion of land cost totaling ₱1,745 million and ₱720 million as at December 31, 2020 and 2019, respectively.

## 10. Equity Instruments at FVOCI

This account consists of investments in:

|                         | 2020               | 2019        |
|-------------------------|--------------------|-------------|
| <i>(In Thousands)</i>   |                    |             |
| Shares of stock:        |                    |             |
| Listed (see Note 20)    | <b>₱16,696,333</b> | ₱21,076,655 |
| Unlisted                | <b>3,381</b>       | 3,381       |
|                         | <b>16,699,714</b>  | 21,080,036  |
| Less noncurrent portion | <b>16,131,568</b>  | 20,420,959  |
|                         | <b>₱568,146</b>    | ₱659,077    |

- 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 to a realized gain amounting to ₱2,879 million directly recognized in retained earnings.

Dividend income from investments at FVOCI amounted to ₱197 million, ₱314 million and ₱394 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 20).



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

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| At beginning of the year  | ₱17,840,990           | ₱19,084,597 |
| Unrealized loss due to changes in fair value - net of transfers | (4,380,321)           | (1,243,607) |
| At end of the year  | ₱13,460,669           | ₱17,840,990 |

## 11. Prepaid Expenses and Other Current Assets

This account consists of:

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Input and creditable withholding taxes          | ₱9,655,119            | ₱6,781,180  |
| Advances and deposits                           | 9,052,663             | 8,261,828   |
| Prepaid taxes and other prepayments             | 3,839,114             | 3,905,472   |
| Supplies and inventories                        | 407,203               | 370,330     |
| Cash in escrow and others (see Notes 20 and 27) | 251,563               | 166,732     |
|   | ₱23,205,662           | ₱19,485,542 |

- 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.
- 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.
- 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 the incentive compliance provisions of the Urban Development and Housing Act (UDHA).

Interest income earned from the cash in escrow amounted to ₱2 million, ₱4 million and ₱2 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 23).



## 12. Property and Equipment - net

The movements in this account are as follows:

|  | Land and<br>Improvements | Buildings and<br>Leasehold<br>Improvements | Data<br>Processing<br>Equipment | Transportation<br>Equipment | Furniture,<br>Fixtures and<br>Equipment | ROUA-<br>Office<br>spaces | Construction<br>in Progress | Total             |
|--|--------------------------|--|---------------------------------|-----------------------------|---|---------------------------|-----------------------------|-------------------|
| <i>(In Thousands)</i>                                |                          |  |                                 |                             |   |                           |                             |                   |
| <b>Cost</b>  |                          |  |                                 |                             |   |                           |                             |                   |
| 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<br>(see Note 13)          | -                        | -  | -                               | -                           | -                                       | 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         |
| Additions  | 10,312                   | 44,289                                     | 30,183                          | 5,650                       | 20,298                                  | -                         | 8,357                       | 119,089           |
| Disposals/retirements                                | -                        | (7,543)                                    | (455)                           | -                           | (705)                                   | -                         | -                           | (8,703)           |
| Reclassifications                                    | -                        | 6,564                                      | -                               | -                           | -                                       | -                         | (6,564)                     | -                 |
| Balance at December 31, 2020                         | ₱272,856                 | ₱1,905,957                                 | ₱378,295                        | ₱101,897                    | ₱743,324                                | ₱10,290                   | ₱1,901                      | ₱3,414,520        |
| <b>Accumulated Depreciation<br/>and Amortization</b> |                          |  |                                 |                             |   |                           |                             |                   |
| Balance at December 31, 2018                         | ₱7,687                   | ₱864,695                                   | ₱250,075                        | ₱78,122                     | ₱545,795                                | ₱-                        | ₱-                          | ₱1,746,374        |
| Depreciation and amortization<br>(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         |
| Depreciation and amortization<br>(see Note 22)       | 4,274                    | 104,434                                    | 25,787                          | 5,968                       | 41,324                                  | 3,398                     | -                           | 185,185           |
| Disposals/retirements                                | -                        | (1,937)                                    | (421)                           | -                           | (329)                                   | -                         | -                           | (2,687)           |
| Balance at December 31, 2020                         | ₱14,978                  | ₱1,063,648                                 | ₱304,114                        | ₱83,800                     | ₱630,954                                | ₱5,818                    | ₱-                          | ₱2,103,312        |
| <b>Net Book Value</b>                                |                          |  |                                 |                             |   |                           |                             |                   |
| As at December 31, 2019                              | ₱251,840                 | ₱901,496                                   | ₱69,819                         | ₱18,415                     | ₱133,772                                | ₱7,870                    | ₱108                        | ₱1,383,320        |
| <b>As at December 31, 2020</b>                       | <b>₱257,878</b>          | <b>₱842,309</b>                            | <b>₱74,181</b>                  | <b>₱18,097</b>              | <b>₱112,370</b>                         | <b>₱4,472</b>             | <b>₱1,901</b>               | <b>₱1,311,208</b> |



### 13. Investment Properties

The movements in this account are as follows:

|  | Land Held for<br>Future<br>Development | Land and<br>Improvements | Buildings and<br>Improvements | Building<br>Equipment,<br>Furniture<br>and Others | ROUA - Land | Construction<br>in Progress | Total        |
|--|--|--------------------------|-------------------------------|---|-------------|-----------------------------|--------------|
| <i>(In Thousands)</i>                            |  |                          |                               |   |             |                             |              |
| <b>Cost</b>                                      |  |                          |                               |   |             |                             |              |
| 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  |
| Additions  | 6,585,159                              | 3,535,214                | 2,045,713                     | 1,478,530   | 3,276,229   | 24,409,153                  | 41,329,998   |
| Reclassifications (see Note 9)                   | (1,829,378)                            | (628,379)                | 7,517,657                     | 862,027   | -           | (7,953,638)                 | (2,031,711)  |
| Translation adjustment                           | -                                      | 15,655                   | 469,724                       | 37,418  | 111,741     | 42,657                      | 677,195      |
| Disposals  | (4,113,632)                            | (44,242)                 | (80)                          | (121,219)   | -           | -                           | (4,279,173)  |
| Balance as at December 31, 2020                  | ₱71,484,914                            | ₱73,125,562              | ₱247,649,748                  | ₱44,844,780                                       | ₱25,591,440 | ₱70,277,889                 | ₱532,974,333 |
| <b>Accumulated Depreciation and Amortization</b> |  |                          |                               |   |             |                             |              |
| 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   |
| Depreciation and amortization (see Note 22)      | -                                      | 236,598                  | 7,024,320                     | 2,349,180   | 546,328     | -                           | 10,156,426   |
| Translation adjustment                           | -                                      | 12,180                   | 111,470                       | 25,372  | 5,042       | -                           | 154,064      |
| Disposals  | -                                      | (26,301)                 | (7)                           | (107,376)   | -           | -                           | (133,684)    |
| Balance as at December 31, 2020                  | ₱-                                     | ₱2,492,639               | ₱63,783,918                   | ₱29,442,511                                       | ₱1,096,184  | ₱-                          | ₱96,815,252  |
| <b>Net Book Value</b>                            |  |                          |                               |   |             |                             |              |
| 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 |
| As at December 31, 2020                          | 71,484,914                             | 70,632,923               | 183,865,830                   | 15,402,269  | 24,495,256  | 70,277,889                  | 436,159,081  |



In 2020, SMDC sold its 100% interest in Summerhills Estate Holdings, Inc. (SEHI), a wholly owned subsidiary of SMDC, for a total consideration of ₱80 million. SEHI's net assets totaled to ₱82 million, including land held for future development amounting to ₱4,114 million. The loss on disposal of subsidiary amounting to ₱2 million is recognized in the consolidated statement of income under "Others - net" account.

In 2019, the Company adopted PFRS 16 which resulted to the recognition of 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 of January 1, 2019.

Portions of investment properties located in China with total carrying value of ₱1,738 million as at December 31, 2019 are mortgaged as collaterals to secure domestic borrowings which matured in June 2020 (see Note 18).

Consolidated rent income from investment properties amounted to ₱32,013 million, ₱61,760 million and ₱57,163 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Consolidated costs and expenses from investment properties, which generate income, amounted to ₱25,404 million, ₱34,060 million and ₱31,684 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱70,278 million and ₱53,780 million as at December 31, 2020 and 2019, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱65,458 million and ₱55,155 million as at December 31, 2020 and 2019, 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 ₱22,641 million and ₱24,676 million as at December 31, 2020 and 2019, respectively.

Interest capitalized to the construction of investment properties amounted to ₱3,540 million, ₱3,143 million and ₱2,681 million for the years ended December 31, 2020, 2019 and 2018, respectively. Capitalization rates used range from 2.35% to 4.70%, from 2.35% to 5.13%, and from 2.35% to 5.04% for the years ended December 31, 2020, 2019 and 2018, 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 using income approach and market value 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 significant assumptions used in the valuation are discount rates and capitalization rates of 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 is no impairment loss on the Company's investment properties and there is no significant change in the fair value of the investment properties from that determined on September 30, 2018.



Management also believes that the carrying values of additions to investment properties subsequent to the most recent valuation date would approximate their fair values.

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.

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#### 14. Investments in Associates and Joint Ventures

##### Investments in Associates

This pertains mainly to investments in the following companies:

- Ortigas Land Corporation (OLC) (formerly OCLP Holdings, Inc.)
- Feihua Real Estate (Chongqing) Company Ltd. (FHREC)

On May 7, 2015, SMPH acquired 39.96% collective ownership interest in OLC, 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 OLC. OLC owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

As at December 31, 2020, OLC's total assets, total liabilities and total equity amounted to ₱39,948 million, ₱30,008 million and ₱9,940 million, respectively. The carrying value of investment in OLC amounted to ₱17,835 million, which consists of its proportionate share in the net assets of OLC amounting to ₱4,063 million and fair value adjustments and others totaling ₱13,772 million.

As at December 31, 2019, OLC'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 OLC amounted to ₱17,639 million, which consists of its proportionate share in the net assets of OLC amounting to ₱3,867 million and fair value adjustments and others totaling ₱13,772 million.

The share in profit, net of dividend received of OLC amounted to ₱196 million, ₱719 million and ₱727 million for the years ended December 31, 2020, 2019 and 2018, respectively. There is no share in other comprehensive income for the years ended December 31, 2020, 2019 and 2018.

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 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 ₱1,291 million and ₱1,276 million as at December 31, 2020 and 2019, respectively. This consists of the acquisition cost amounting to ₱282 million and ₱292 million and cumulative equity in net earnings amounting to ₱1,009 million and ₱984 million as at December 31, 2020 and 2019, respectively. The share in profit amounted to nil, nil and ₱61 million for the years ended December 31, 2020, 2019 and 2018, respectively. There is no share in other comprehensive income for the years ended December 31, 2020, 2019 and 2018.



### 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 34 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 ₱6,785 million and ₱6,675 million as at December 31, 2020 and 2019, respectively. These consist of the acquisition costs totaling ₱5,145 million and cumulative equity in net earnings, net of dividends received totaling ₱1,640 million and ₱1,530 million as at December 31, 2020 and 2019, respectively. The aggregate share in profit and total comprehensive income, net of dividends received amounted to ₱110 million, ₱371 million and ₱326 million for the years ended December 31, 2020, 2019 and 2018, respectively.

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 ₱1,678 million and ₱1,500 million as at December 31, 2020 and 2019, respectively. The aggregate share in profit and total comprehensive income amounted to ₱178 million for the year ended December 31, 2020. 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 ₱46 million and ₱79 million as at December 31, 2020 and 2019, respectively. These consist of the acquisition costs totaling ₱86 million and cumulative equity in net loss totaling ₱40 million and ₱7 million as at December 31, 2020 and 2019, respectively. There is no share in other comprehensive income for the years ended December 31, 2020 and 2019.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2020 and 2019.



## 15. Other Noncurrent Assets

This account consists of:

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Receivables from sale of real estate - net of current portion* (see Note 8) | <b>₱46,816,693</b>    | ₱24,880,776 |
| Bonds and deposits  | <b>32,433,867</b>     | 23,659,284  |
| Time deposits (see Notes 20 and 28)   | <b>1,356,442</b>      | 2,412,972   |
| Deferred input tax  | <b>1,111,000</b>      | 1,144,582   |
| Land use rights and others (see Note 24)                                    | <b>1,397,305</b>      | 1,466,037   |
|   | <b>₱83,115,307</b>    | ₱53,563,651 |

\*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 ₱43 million, ₱32 million and ₱42 million for the years ended December 31, 2020, 2019 and 2018, 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 ₱10,900 million and ₱100 million as at December 31, 2020 and 2019, respectively, with due dates of less than one year. These loans bear interest rates of 3.15% to 4.00% in 2020 and 4.30% in 2019.

Interest expense incurred from loans payable amounted to ₱189 million, ₱28 million and ₱21 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 23).



## 17. Accounts Payable and Other Current Liabilities

This account consists of:

|  | 2020                  | 2019        |
|--|-----------------------|-------------|
|  | <i>(In Thousands)</i> |             |
| Trade:   |                       |             |
| Third parties  | ₱37,994,767           | ₱33,593,152 |
| Related parties (see Note 20)                                  | 490,247               | 98,765      |
| Tenants' and customers' deposits* (see Note 26)                | 37,540,373            | 34,514,623  |
| Lease liabilities  | 11,076,316            | 11,213,547  |
| Accrued operating expenses:                                    |                       |             |
| Third parties  | 9,863,058             | 9,270,065   |
| Related parties (see Note 20)                                  | 407,443               | 455,154     |
| Liability for purchased land                                   | 8,608,649             | 8,983,584   |
| Deferred output VAT  | 8,228,236             | 4,797,328   |
| Accrued interest (see Note 20)                                 | 2,237,044             | 1,991,323   |
| Payable to government agencies                                 | 1,268,136             | 1,216,212   |
| Nontrade   | 400,110               | 360,582     |
| Liability from assigned receivables and others<br>(see Note 8) | 4,447,540             | 4,634,033   |
|  | <b>122,561,919</b>    | 111,128,368 |
| Less noncurrent portion  | 41,527,934            | 41,002,618  |
|  | <b>₱81,033,985</b>    | ₱70,125,750 |

\* Includes unearned revenue from sale of real estate amounting to ₱7,615 million and ₱6,023 million as at December 31, 2020 and 2019, 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:

|                                      | 2020                  | 2019       |
|--------------------------------------|-----------------------|------------|
|                                      | <i>(In Thousands)</i> |            |
| Payable to contractors               | ₱4,045,630            | ₱3,381,980 |
| Utilities                            | 2,532,449             | 2,888,920  |
| Marketing and advertising and others | 3,284,979             | 2,999,165  |
|                                      | <b>₱9,863,058</b>     | ₱9,270,065 |

- 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 2020 and 2019 from amounts



included in unearned revenue from sale of real estate at the beginning of the year amounted to ₱3,689 million and ₱2,769 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 ₱11,009 million and ₱11,151 million as at December 31, 2020 and December 31, 2019, respectively (see Note 28). Interest on lease liabilities included under "Others - net" in the consolidated statements of income amounted to ₱323 million and ₱317 million as at December 31, 2020 and December 31, 2019, respectively.



## 18. Long-term Debt

This account consists of:

|                                       | Availment Date                       | Maturity Date                        | Interest Rate                                 | Condition                | Outstanding Balance |              |
|---------------------------------------|--------------------------------------|--------------------------------------|---|--------------------------|---------------------|--------------|
|                                       |                                      |                                      |   |                          | 2020                | 2019         |
| <i>(In Thousands)</i>                 |                                      |                                      |   |                          |                     |              |
| <b>Parent Company</b>                 |                                      |                                      |   |                          |                     |              |
| Philippine peso-denominated loans     |                                      |                                      |   |                          |                     |              |
| Retail bonds                          | September 1, 2014 - March 25, 2020   | March 1, 2020 - March 25, 2027       | 4.20% - 6.22%                                 | Unsecured                | <b>₱99,964,260</b>  | ₱100,000,000 |
| Other bank loans                      | January 12, 2012 - December 14, 2020 | January 12, 2022 - December 14, 2025 | Floating BVAL + margin; Fixed 4.51% - 6.74%   | Unsecured                | <b>31,548,000</b>   | 22,048,400   |
| U.S. dollar-denominated loans*        | July 30, 2018 - November 10, 2020    | October 2, 2022 - June 14, 2023      | LIBOR + spread; quarterly                     | Unsecured                | <b>10,084,830</b>   | 5,569,850    |
| <b>Subsidiaries</b>                   |                                      |                                      |   |                          |                     |              |
| Philippine peso-denominated loans     | June 3, 2013 - December 29, 2020     | June 3, 2020 - August 7, 2029        | Floating BVAL + margin; Fixed - 3.61% - 6.37% | Unsecured                | <b>78,992,080</b>   | 74,511,969   |
| U.S. dollar-denominated loans**       | March 21, 2016 - September 23, 2020  | January 29, 2021 - April 5, 2024     | LIBOR + spread; semi-annual/quarterly         | Unsecured                | <b>39,669,574</b>   | 34,179,449   |
| China yuan renminbi-denominated loans | January 14, 2016 - October 16, 2017  | June 1, 2020 - October 16, 2022      | CBC rate less 10%; quarterly; Fixed - 5.85%   | Unsecured/<br>Secured*** | <b>2,559,639</b>    | 2,670,803    |
|                                       |                                      |                                      |   |                          | <b>262,818,383</b>  | 238,980,471  |
| Less debt issue cost                  |                                      |                                      |   |                          | <b>1,249,386</b>    | 1,126,048    |
|                                       |                                      |                                      |   |                          | <b>261,568,997</b>  | 237,854,423  |
| Less current portion                  |                                      |                                      |   |                          | <b>42,738,350</b>   | 23,521,373   |
|                                       |                                      |                                      |   |                          | <b>₱218,830,647</b> | ₱214,333,050 |

*LIBOR – London Interbank Offered Rate*

*BVAL – Bloomberg Valuation Service*

*CBC – Central Bank of China*

*\*Hedged against foreign exchange risks using cross-currency swaps*

*\*\*Hedged against foreign exchange and interest rate risks using cross-currency swaps, principal-only swaps and interest rate swaps*

*\*\*\*Long-term debt secured by portions of investment properties located in China matured in June 2020 (see Note 13)*



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 0.80:0.20 and interest coverage ratio of not less than 2.50:1.00 and material change in ownership or control. As at December 31, 2020 and 2019, 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 ₱8,224 million, ₱8,663 million and ₱7,451 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 23).

#### Debt Issue Cost

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

|                                   | 2020                  | 2019              |
|-----------------------------------|-----------------------|-------------------|
|                                   | <i>(In Thousands)</i> |                   |
| Balance at beginning of the year  | ₱1,126,048            | ₱1,136,169        |
| Additions                         | 540,881               | 386,742           |
| Amortization                      | (417,543)             | (396,863)         |
| <b>Balance at end of the year</b> | <b>₱1,249,386</b>     | <b>₱1,126,048</b> |

Amortization of debt issuance costs is recognized in the consolidated statements of income under “Others - net” account.

#### Repayment and Debt Issue Cost Schedule

The repayments of long-term debt are scheduled as follows:

|                             | Gross                 | Debt Issue Cost     | Net                 |
|-----------------------------|-----------------------|---------------------|---------------------|
|                             | <i>(In Thousands)</i> |                     |                     |
| Within 1 year               | ₱42,738,350           | (₱416,274)          | ₱42,322,076         |
| More than 1 year to 5 years | 203,516,574           | (813,111)           | 202,703,463         |
| More than 5 years           | 16,563,459            | (20,001)            | 16,543,458          |
|                             | <b>₱262,818,383</b>   | <b>(₱1,249,386)</b> | <b>₱261,568,997</b> |

## 19. Equity

#### Capital Stock

As at December 31, 2020 and 2019, 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 Company has 28,856 million outstanding shares as at December 31, 2020 and 2019.



The following summarizes the information on SMPH's registration of securities under the Securities Regulation Code:

| Date of SEC Approval/<br>Notification to SEC | Authorized<br>Shares | No. of Shares<br>Issued | Issue/Offer<br>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 2,395 as at December 31, 2020.

#### Additional Paid-in Capital - Net

Following represents the nature of the consolidated “Additional paid-in capital - net”:

|   | <b>2020</b>           | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Paid-in subscriptions in excess of par value                          | <b>₱33,549,808</b>    | ₱33,549,808 |
| Net equity adjustments from common control<br>business combinations   | <b>9,309,730</b>      | 9,309,730   |
| Arising from acquisition of non-controlling interests<br>(see Note 5) | <b>(4,836,625)</b>    | (4,851,870) |
| <u>As presented in the consolidated balance sheets</u>                | <b>₱38,022,913</b>    | ₱38,007,668 |

#### Retained Earnings

In 2020, the BOD approved the declaration of cash dividend of ₱0.185 per share or ₱5,343 million to stockholders of record as of June 30, 2020, ₱4 million of which was received by SMDC. This was paid on July 14, 2020. 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.

As at December 31, 2020 and 2019, the amount of retained earnings appropriated for the corporate and mall expansions amounted to ₱42,200 million. This represents appropriation for land banking activities and planned construction projects for the next two to three years. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company. Approval of malls expansions and new projects is delegated by the BOD to the Executive Committee of the Company.

For the year 2021, 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 ₱104,746 million and ₱91,773 million as at December 31, 2020 and 2019, respectively, representing the cost of shares held in treasury (₱2,985 million as at December 31, 2020 and 2019) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures ₱101,761 million and ₱88,788 million as at December 31, 2020 and 2019, 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, 2020 and 2019, this includes 4,310 million reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱2,985 million.

## 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, 2020 and 2019, 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<br>[Asset (Liability)] |            | Terms                                      | Conditions                 |
|-----------------------------------|------------------------|-------------|-------------|---|------------|--|----------------------------|
|                                   | 2020                   | 2019        | 2018        | 2020                                      | 2019       |  |                            |
| <i>(In Thousands)</i>             |                        |             |             |   |            |  |                            |
| <b>Ultimate Parent</b>            |                        |             |             |   |            |  |                            |
| Rent income                       | <b>₱54,752</b>         | ₱46,314     | ₱45,391     | <b>₱-</b>                                 | ₱-         |  |                            |
| Rent receivable                   | -                      | -           | -           | <b>4,426</b>                              | 4,846      | Noninterest-bearing                        | Unsecured;<br>not impaired |
| Management fee income             | <b>2,790</b>           | 3,183       | 2,885       | -   | -          |  |                            |
| Service income                    | <b>48,000</b>          | 57,600      | 57,600      | -   | -          |  |                            |
| Service fee receivable            | -                      | -           | -           | <b>4,480</b>                              | 14,080     | Noninterest-bearing                        | Unsecured;<br>not impaired |
| Rent expense                      | <b>92,484</b>          | 113,152     | 105,583     | -   | -          |  |                            |
| Accrued rent payable              | -                      | -           | -           | -   | (8)        | Noninterest-bearing                        | Unsecured                  |
| Trade payable                     | <b>11,887</b>          | 7,955       | 6,539       | <b>(36,646)</b>                           | (24,759)   | Noninterest-bearing                        | Unsecured                  |
| Equity instruments at FVOCI       | -                      | -           | -           | <b>153,263</b>                            | 152,386    |  |                            |
| Dividend income                   | <b>621</b>             | 1,332       | 1,198       | -   | -          |  |                            |
| <b>Bank and Retail Affiliates</b> |                        |             |             |   |            |  |                            |
| Cash and cash equivalents         | <b>118,698,095</b>     | 123,976,281 | 160,983,099 | <b>17,670,812</b>                         | 21,375,689 | Interest bearing based on prevailing rates | Unsecured;<br>not impaired |
| Rent income                       | <b>10,067,227</b>      | 17,103,118  | 16,079,276  | -   | -          |  |                            |
| Rent receivable                   | -                      | -           | -           | <b>2,221,901</b>                          | 3,712,435  | Noninterest-bearing                        | Unsecured;<br>not impaired |
| Service income                    | <b>31,233</b>          | 19,895      | 28,559      | -   | -          |  |                            |
| Management fee income             | -                      | 256         | 999         | -   | -          |  |                            |
| Management fee receivable         | -                      | -           | -           | <b>8,441</b>                              | 16,882     | Noninterest-bearing                        | Unsecured;<br>not impaired |
| Interest income                   | <b>435,107</b>         | 862,812     | 374,432     | -   | -          |  |                            |
| Accrued interest receivable       | -                      | -           | -           | <b>12,049</b>                             | 51,668     | Noninterest-bearing                        | Unsecured;<br>not impaired |
| Receivable financed               | <b>7,170,156</b>       | 7,689,986   | 1,663,822   | -   | -          | Without recourse                           | Unsecured                  |
| Time deposits                     | -                      | 30,375      | -           | <b>1,356,442</b>                          | 2,412,972  | Interest-bearing                           | Unsecured                  |

(Forward)



|                                  | Amount of Transactions |            |            | Outstanding Amount<br>[Asset (Liability)] |               | Terms                                      | Conditions              |
|----------------------------------|------------------------|------------|------------|---|---------------|--|-------------------------|
|                                  | 2020                   | 2019       | 2018       | 2020                                      | 2019          |  |                         |
| <i>(In Thousands)</i>            |                        |            |            |   |               |  |                         |
| Loans payable and long-term debt | ₱2,500,412             | ₱2,500,330 | ₱9,205,385 | (₱10,538,976)                             | (₱12,277,815) | Interest-bearing                           | Unsecured               |
| Interest expense                 | 711,528                | 714,250    | 252,296    | —   | —             |  |                         |
| Accrued interest payable         | —                      | —          | —          | (53,452)                                  | (57,229)      | Noninterest-bearing                        | Unsecured               |
| Rent expense                     | 38                     | 461        | 634        | —   | —             |  |                         |
| Trade payable                    | 225,008                | —          | 38,510     | (288,144)                                 | (63,136)      | Noninterest-bearing                        | Unsecured               |
| Management fee expense           | 3,620                  | 3,425      | 11,217     | —   | —             |  |                         |
| Equity instruments at FVOCI      | —                      | —          | —          | 9,614,605                                 | 14,223,854    |  |                         |
| Cash in escrow                   | 25,952                 | 149,038    | 157,719    | 144,209                                   | 117,985       | Interest bearing based on prevailing rates | Unsecured; not impaired |
| Dividend income                  | 108,029                | 186,098    | 225,357    | —   | —             |  |                         |
| <b>Other Related Parties</b>     |                        |            |            |   |               |  |                         |
| Rent income                      | 153,434                | 187,219    | 178,572    | —   | —             |  |                         |
| Rent receivable                  | —                      | —          | —          | 23,178                                    | 16,480        | Noninterest-bearing                        | Unsecured; not impaired |
| Service income                   | 86,038                 | 92,823     | 77,579     | —   | —             |  |                         |
| Service fee receivable           | —                      | —          | —          | —   | 1,963         | Noninterest-bearing                        | Unsecured; not impaired |
| Management fee income            | 2,404                  | 15,491     | 6,859      | —   | —             |  |                         |
| Management fee receivable        | —                      | —          | —          | 6,862                                     | 6,862         | Noninterest-bearing                        | Unsecured; not impaired |
| Rent expense                     | 5,638                  | 8,602      | 8,311      | —   | —             |  |                         |
| Accrued expenses                 | —                      | —          | —          | (407,443)                                 | (455,146)     | Noninterest-bearing                        | Unsecured               |
| Trade payable                    | 154,587                | —          | —          | (165,457)                                 | (10,870)      | Noninterest-bearing                        | Unsecured               |
| Dividend income                  | —                      | —          | 88,266     | —   | —             |  |                         |

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 2020 and 2019 (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, 2020, 2019 and 2018 consist of short-term employee benefits amounting to ₱1,126 million, ₱1,179 million and ₱1,104 million, respectively, and post-employment benefits (pension benefits) amounting to ₱274 million, ₱182 million and ₱165 million, respectively.

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**21. Other Revenue**

Details of other revenue follows:

|                              | 2020                  | 2019       | 2018       |
|------------------------------|-----------------------|------------|------------|
|                              | <i>(In Thousands)</i> |            |            |
| Food and beverages           | <b>₱438,755</b>       | ₱1,733,424 | ₱1,668,705 |
| Net merchandise sales        | <b>223,432</b>        | 973,897    | 902,730    |
| Amusement and others         | <b>182,994</b>        | 925,485    | 911,580    |
| Advertising income           | <b>72,788</b>         | 220,331    | 214,473    |
| Bowling and ice skating fees | <b>56,035</b>         | 291,909    | 253,911    |
| Others                       | <b>1,305,887</b>      | 2,392,600  | 1,875,384  |
|                              | <b>₱2,279,891</b>     | ₱6,537,646 | ₱5,826,783 |

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

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**22. Costs and Expenses**

This account consists of:

|  | 2020                  | 2019        | 2018        |
|--|-----------------------|-------------|-------------|
|  | <i>(In Thousands)</i> |             |             |
| Cost of real estate sold (see Note 9)                  | <b>₱20,578,406</b>    | ₱20,794,360 | ₱17,769,208 |
| Depreciation and amortization<br>(see Notes 12 and 13) | <b>10,341,611</b>     | 10,825,078  | 9,655,426   |
| Administrative (see Notes 20 and 24)                   | <b>8,945,926</b>      | 12,100,309  | 11,329,111  |
| Marketing and selling                                  | <b>5,152,576</b>      | 6,408,579   | 5,530,794   |
| Business taxes and licenses                            | <b>5,082,801</b>      | 4,819,840   | 4,790,129   |
| Insurance  | <b>611,317</b>        | 542,349     | 518,168     |
| Rent (see Notes 20 and 26)                             | <b>564,602</b>        | 1,255,788   | 1,729,671   |
| Film rentals   | <b>355,055</b>        | 3,048,427   | 2,829,629   |
| Others   | <b>1,192,818</b>      | 1,824,432   | 1,601,198   |
|  | <b>₱52,825,112</b>    | ₱61,619,162 | ₱55,753,334 |

Rent expense pertain to variable payments for various lease agreements.

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:

|  | 2020                  | 2019              | 2018              |
|--|-----------------------|-------------------|-------------------|
|  | <i>(In Thousands)</i> |                   |                   |
| Interest income on:                    |                       |                   |                   |
| Cash and cash equivalents (see Note 6) | ₱899,615              | ₱1,304,094        | ₱1,297,364        |
| Time deposits (see Note 15)            | 43,101                | 32,149            | 42,160            |
| Others (see Notes 8 and 11)            | 67,245                | 96,017            | 76,924            |
|  | <b>₱1,009,961</b>     | <b>₱1,432,260</b> | <b>₱1,416,448</b> |
| Interest expense on:                   |                       |                   |                   |
| Long-term debt (see Note 18)           | ₱8,223,671            | ₱8,663,340        | ₱7,451,159        |
| Loans payable (see Note 16)            | 189,244               | 28,055            | 21,054            |
| Others                                 | 183,835               | 141,375           | 67,832            |
|  | <b>₱8,596,750</b>     | <b>₱8,832,770</b> | <b>₱7,540,045</b> |

### 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, 2020.

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")

|                           | 2020                  | 2019            | 2018            |
|---------------------------|-----------------------|-----------------|-----------------|
|                           | <i>(In Thousands)</i> |                 |                 |
| Current service cost      | ₱446,968              | ₱327,853        | ₱296,007        |
| Interest - net and others | 34,321                | (9,973)         | (13,279)        |
|                           | <b>₱481,289</b>       | <b>₱317,880</b> | <b>₱282,728</b> |

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

|                               | 2020                  | 2019           |
|-------------------------------|-----------------------|----------------|
|                               | <i>(In Thousands)</i> |                |
| Fair value of plan assets     | ₱207,458              | ₱226,448       |
| Defined benefit obligation    | (115,900)             | (149,375)      |
| Effect of asset ceiling limit | (10,691)              | (11,186)       |
| Net pension asset             | <b>₱80,867</b>        | <b>₱65,887</b> |

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

|                            | 2020                  | 2019            |
|----------------------------|-----------------------|-----------------|
|                            | <i>(In Thousands)</i> |                 |
| Defined benefit obligation | ₱3,120,026            | ₱3,591,858      |
| Fair value of plan assets  | (2,682,509)           | (2,876,419)     |
| Net pension liability      | <b>₱437,517</b>       | <b>₱715,439</b> |



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

|                                    | 2020                  | 2019       |
|------------------------------------|-----------------------|------------|
|                                    | <i>(In Thousands)</i> |            |
| Balance at beginning of the year   | <b>₱3,741,233</b>     | ₱2,499,818 |
| Actuarial loss (gain) on:          |                       |            |
| Changes in financial assumptions   | <b>(420,558)</b>      | 601,169    |
| Experience adjustments             | <b>(390,767)</b>      | 180,426    |
| Changes in demographic assumptions | <b>2,890</b>          | 22,494     |
| Current service cost               | <b>446,968</b>        | 327,853    |
| Interest cost and others           | <b>206,376</b>        | 193,627    |
| Benefits paid                      | <b>(343,525)</b>      | (79,068)   |
| Transfer from the plan             | <b>(6,691)</b>        | (5,086)    |
| Balance at end of the year         | <b>₱3,235,926</b>     | ₱3,741,233 |

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

|                              | 2020                  | 2019       |
|------------------------------|-----------------------|------------|
|                              | <i>(In Thousands)</i> |            |
| Related to pension asset     | <b>₱115,900</b>       | ₱149,375   |
| Related to pension liability | <b>3,120,026</b>      | 3,591,858  |
|                              | <b>₱3,235,926</b>     | ₱3,741,233 |

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

|                              | 2020                  | 2019       |
|------------------------------|-----------------------|------------|
|                              | <i>(In Thousands)</i> |            |
| Balance at beginning of year | <b>₱3,102,867</b>     | ₱2,451,424 |
| Contributions                | <b>343,507</b>        | 498,788    |
| Interest income              | <b>172,683</b>        | 204,775    |
| Benefits paid from assets    | <b>(343,525)</b>      | (79,068)   |
| Transfer from the plan       | <b>(6,691)</b>        | (5,086)    |
| Remeasurement gain (loss)    | <b>(378,874)</b>      | 32,034     |
| Balance at end of year       | <b>₱2,889,967</b>     | ₱3,102,867 |

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

|                              | 2020                  | 2019       |
|------------------------------|-----------------------|------------|
|                              | <i>(In Thousands)</i> |            |
| Related to pension asset     | <b>₱207,458</b>       | ₱226,448   |
| Related to pension liability | <b>2,682,509</b>      | 2,876,419  |
|                              | <b>₱2,889,967</b>     | ₱3,102,867 |



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

|  | 2020                  | 2019    |
|--|-----------------------|---------|
|  | <i>(In Thousands)</i> |         |
| Asset ceiling limit at beginning of year | <b>₱11,186</b>        | ₱15,148 |
| Remeasurement gain                       | <b>(1,123)</b>        | (5,137) |
| Interest cost                            | <b>628</b>            | 1,175   |
|  | <b>₱10,691</b>        | ₱11,186 |

The carrying amounts and fair values of the plan assets as at December 31, 2020 and 2019 are as follows:

|                           | 2020                  |                   | 2019               |               |
|---------------------------|-----------------------|-------------------|--------------------|---------------|
|                           | Carrying<br>Amount    | Fair<br>Value     | Carrying<br>Amount | Fair<br>Value |
|                           | <i>(In Thousands)</i> |                   |                    |               |
| Cash and cash equivalents | <b>₱42,936</b>        | <b>₱42,936</b>    | ₱18,228            | ₱18,228       |
| Investments in:           |                       |                   |                    |               |
| Common trust funds        | <b>1,147,925</b>      | <b>1,147,925</b>  | 1,237,861          | 1,237,861     |
| Government securities     | <b>1,068,491</b>      | <b>1,068,491</b>  | 1,069,767          | 1,069,767     |
| Debt and other securities | <b>588,723</b>        | <b>588,723</b>    | 727,017            | 727,017       |
| Equity securities         | <b>29,653</b>         | <b>29,653</b>     | 31,603             | 31,603        |
| Other financial assets    | <b>12,239</b>         | <b>12,239</b>     | 18,391             | 18,391        |
|                           | <b>₱2,889,967</b>     | <b>₱2,889,967</b> | ₱3,102,867         | ₱3,102,867    |

- 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 2.63% to 6.25% and have maturities ranging from 2023 to 2025;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 2.58% to 7.51% and have maturities ranging from 2021 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:

|  | 2020                  | 2019      |
|--|-----------------------|-----------|
|  | <i>(In Thousands)</i> |           |
| Cash and cash equivalents                          | <b>₱42,936</b>        | ₱18,228   |
| Interest income from cash and cash equivalents     | <b>960</b>            | 5,314     |
| Investments in common trust funds                  | <b>1,147,925</b>      | 1,237,861 |
| Gain (loss) from investments in common trust funds | <b>(72,170)</b>       | 4         |

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

|                         | 2020             | 2019      | 2018      |
|-------------------------|------------------|-----------|-----------|
| Discount rate           | <b>3.0%–4.4%</b> | 5.5%–5.6% | 7.4%–7.8% |
| Future salary increases | <b>2.0%–9.0%</b> | 3.0%–9.0% | 3.0%–9.0% |

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

|  | 2020                  | 2019     | 2018     |
|--|-----------------------|----------|----------|
|  | <i>(In Thousands)</i> |          |          |
| Actuarial (gain) loss  | <b>(₱429,561)</b>     | ₱772,055 | ₱227,809 |
| Remeasurement gain - excluding amounts recognized in net interest cost | <b>(1,123)</b>        | (5,137)  | (15,271) |
|  | <b>(₱430,684)</b>     | ₱766,918 | ₱212,538 |

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, 2020 and 2019, respectively, assuming all other assumptions were held constant:

|                                | Increase (Decrease)<br>in Basis Points | Increase (Decrease) in<br>Defined Benefit Obligation |
|--------------------------------|--|--|
| <b>2020</b>                    | <i>(In Thousands)</i>                  |  |
| <b>Discount rates</b>          | <b>50</b>                              | <b>(₱146,942)</b>                                    |
|                                | <b>(50)</b>                            | <b>160,226</b>                                       |
| <b>Future salary increases</b> | <b>100</b>                             | <b>311,481</b>                                       |
|                                | <b>(100)</b>                           | <b>(270,495)</b>                                     |
| <b>2019</b>                    |  |  |
| Discount rates                 | 50                                     | (₱170,376)   |
|                                | (50)                                   | 185,129  |
| Future salary increases        | 100                                    | 370,345  |
|                                | (100)                                  | (320,998)  |

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, 2020 and 2019, respectively:

| Year 2020        | Amount                |
|------------------|-----------------------|
|                  | <i>(In Thousands)</i> |
| <b>2021</b>      | <b>₱633,747</b>       |
| <b>2022</b>      | <b>228,286</b>        |
| <b>2023–2024</b> | <b>556,135</b>        |
| <b>2025–2030</b> | <b>2,005,553</b>      |
| Year 2019        | Amount                |
|                  | <i>(In Thousands)</i> |
| 2020             | ₱579,542              |
| 2021             | 461,929               |
| 2022–2023        | 618,296               |
| 2024–2029        | 2,421,611             |

The Company expects to contribute about ₱432 million to its defined benefit pension plan in 2021.

The weighted average duration of the defined benefit obligation is 9.6 years and 9.4 years as of December 31, 2020 and 2019, respectively.

## 25. Income Tax

The current provision for income tax presented in the consolidated statements of income represents RCIT and MCIT.

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

|   | 2020                  | 2019        |
|---|-----------------------|-------------|
|   | <i>(In Thousands)</i> |             |
| Deferred tax assets:  |                       |             |
| Lease liabilities   | <b>₱1,993,521</b>     | ₱2,019,512  |
| NOLCO   | <b>965,328</b>        | 413,026     |
| Unrealized foreign exchange losses  | <b>408,353</b>        | 408,342     |
| Excess of fair value over cost of investment<br>properties and others               | <b>331,415</b>        | 347,763     |
| Excess MCIT over RCIT   | <b>324,262</b>        | 17,088      |
| Provision for ECLs on receivables   | <b>122,272</b>        | 105,450     |
| Unamortized past service cost   | <b>17,624</b>         | 27,895      |
| Deferred rent income  | –                     | 4,073       |
| Others  | <b>536,864</b>        | 1,054,832   |
|   | <b>4,699,639</b>      | 4,397,981   |
| Deferred tax liabilities:   |                       |             |
| Unrealized gross profit on sale of real estate                                      | <b>(6,405,984)</b>    | (3,924,038) |
| Undepreciated capitalized interest, unrealized<br>foreign exchange gains and others | <b>(2,442,990)</b>    | (1,996,511) |
| Right-of-use assets   | <b>(1,595,884)</b>    | (1,597,089) |

*(Forward)*



|                              | 2020                | 2019                |
|------------------------------|---------------------|---------------------|
| Pension asset                | (₱71,718)           | (₱28,861)           |
| Others                       | (137,535)           | (126,791)           |
|                              | <b>(1,805,137)</b>  | <b>(7,673,290)</b>  |
| Net deferred tax liabilities | <b>(₱5,954,472)</b> | <b>(₱3,275,309)</b> |

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

|                                | 2020                  | 2019                |
|--------------------------------|-----------------------|---------------------|
|                                | <i>(In Thousands)</i> |                     |
| Deferred tax assets - net      | <b>₱831,546</b>       | ₱903,845            |
| Deferred tax liabilities - net | <b>(6,786,018)</b>    | (4,179,154)         |
|                                | <b>(₱5,954,472)</b>   | <b>(₱3,275,309)</b> |

As at December 31, 2020 and 2019, unrecognized deferred tax assets amounted to ₱184 million and ₱174 million, respectively, bulk of which pertains to NOLCO from SM China.

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020 implementing Section 4(bbb) of “Bayanihan to Recover As One Act (“Bayanihan Act”)” which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The Company has incurred NOLCO amounting to ₱2,085 million in taxable year 2020.

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:

|  | 2020         | 2019  | 2018  |
|--|--------------|-------|-------|
| Statutory tax rate   | <b>30.0%</b> | 30.0% | 30.0% |
| Income tax effects of:   |              |       |       |
| Equity in net earnings<br>of associates and joint<br>ventures                              | <b>(0.9)</b> | (0.9) | (0.9) |
| Availment of income tax holiday  | <b>(3.4)</b> | (4.1) | (4.0) |
| Interest income subjected to<br>final tax and dividend<br>income exempt from<br>income tax | <b>(1.5)</b> | (0.8) | (1.2) |
| Nondeductible expenses and<br>others   | <b>(4.9)</b> | (3.1) | (2.3) |
| Effective tax rates  | <b>19.3%</b> | 21.1% | 21.6% |

The Company’s certain real estate sales are registered with the Philippine Board of Investments as a new developer of low-cost mass housing projects. Under such registration, the Company is entitled to a three to four-year income tax holiday incentive for certain projects.

## 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:

|   | 2020                 | 2019    |
|---|----------------------|---------|
|   | <i>(In Millions)</i> |         |
| Within one year                             | <b>₱6,263</b>        | ₱3,630  |
| After one year but not more than five years | <b>14,102</b>        | 12,802  |
| After more than five years                  | <b>6,648</b>         | 7,747   |
|   | <b>₱27,013</b>       | ₱24,179 |

Consolidated rent income amounted to ₱32,013 million, ₱61,760 million and ₱57,163 million for the years ended December 31, 2020, 2019 and 2018, respectively.

#### Company as Lessee

The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 10 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

Depreciation expense on ROUA, interest expense on lease liabilities and rent expense on other leases amounting to ₱550 million, ₱323 million and ₱565 million, respectively, and ₱552 million, ₱317 million and ₱1,256 million, respectively, are recognized in the consolidated statements of income for the years ended December 31, 2020 and 2019, respectively (see Notes 12, 13, 17 and 22).

The maturity analysis of the undiscounted lease payments as at December 31, 2020 and December 31, 2019, respectively are presented in Note 27 to the consolidated financial statements.

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## 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, principal only swaps, interest rate swaps and non-deliverable forwards. 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, 2020 and 2019, after taking into account the effect of interest rate swaps, approximately 80% and 81%, 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, 2020 and 2019:

|                                   | Interest Rate | 2020       |             |             |            |             | Total              |
|-----------------------------------|---------------|------------|-------------|-------------|------------|-------------|--------------------|
|                                   |               | 1-<2 Years | 2-<3 Years  | 3-<4 Years  | 4-<5 Years | =>5 Years   |                    |
| <b>Floating Rate</b>              |               |            |             |             |            |             |                    |
| Philippine peso-denominated loans | BVAL+margin%  | ₱1,268,600 | ₱12,273,600 | ₱19,247,600 | ₱3,795,600 | ₱15,701,400 | 52,286,800         |
| Less debt issue cost              |               |            |             |             |            |             | 219,732            |
|                                   |               |            |             |             |            |             | <b>₱52,067,068</b> |

|                                      | Interest Rate     | 2019       |            |            |             |             | Total              |
|--------------------------------------|-------------------|------------|------------|------------|-------------|-------------|--------------------|
|                                      |                   | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years  | =>5 Years   |                    |
| <b>Floating Rate</b>                 |                   |            |            |            |             |             |                    |
| 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 loan | CBC rate less 10% | ¥19,382    | ¥-         | ¥347,900   | ¥-          | ¥-          | 2,670,803          |
| Less debt issue cost                 |                   |            |            |            |             |             | 48,831,203         |
|                                      |                   |            |            |            |             |             | 220,142            |
|                                      |                   |            |            |            |             |             | <b>₱48,611,061</b> |

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)<br>in Basis Points | Effect on Income<br>Before Income Tax |
|-----------------------|--|---------------------------------------|
| <i>(In Thousands)</i> |  |                                       |
| <b>2020</b>           | <b>100</b>                             | <b>(₱34,417)</b>                      |
|                       | <b>50</b>                              | <b>(17,209)</b>                       |
|                       | <b>(100)</b>                           | <b>34,417</b>                         |
|                       | <b>(50)</b>                            | <b>17,209</b>                         |
| 2019                  | 100                                    | (₱35,221)                             |
|                       | 50                                     | (17,611)                              |
|                       | (100)                                  | 35,221                                |
|                       | (50)                                   | 17,611                                |

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 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\$25 million (₱1,179 million) as at December 31, 2020 and US\$33 million (₱1,655 million) as at December 31, 2019.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱48.02 to US\$1.00 and ₱50.64 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2020 and 2019, 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<br>(Depreciation) of \$ | Effect on Income<br>Before Tax |
|-----------------------|--------------------------------------|--------------------------------|
| <i>(In Thousands)</i> |                                      |                                |
| <b>2020</b>           | <b>1.50</b>                          | <b>₱9,210</b>                  |
|                       | <b>1.00</b>                          | <b>6,140</b>                   |



|      | Appreciation<br>(Depreciation) of \$ | Effect on Income<br>Before Tax |
|------|--------------------------------------|--------------------------------|
|      |                                      | <i>(In Thousands)</i>          |
|      | <b>(1.50)</b>                        | <b>(₱9,210)</b>                |
|      | <b>(1.00)</b>                        | <b>(6,140)</b>                 |
| 2019 | 1.50                                 | 12,254                         |
|      | 1.00                                 | 8,169                          |
|      | (1.50)                               | (12,254)                       |
|      | (1.00)                               | (8,169)                        |

### 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 ₱30,662 million and ₱568 million, respectively, as at December 31, 2020 and ₱34,600 million and ₱659 million, respectively, as at December 31, 2019 (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:

|   | 2020                  |                                |                      | Total               |
|---|-----------------------|--------------------------------|----------------------|---------------------|
|   | Within 1 Year         | More than 1<br>Year to 5 Years | More than<br>5 Years |                     |
|   | <i>(In Thousands)</i> |                                |                      |                     |
| Loans payable   | ₱10,956,069           | ₱-                             | ₱-                   | ₱10,956,069         |
| Accounts payable and other current liabilities*         | 63,449,508            | -                              | -                    | 63,449,508          |
| Long-term debt (including current portion)              | 51,645,867            | 228,715,038                    | 17,274,810           | 297,635,715         |
| Derivative liabilities                                  | 357,662               | 2,445,735                      | -                    | 2,803,397           |
| Liability for purchased land - net of current portion** | -                     | 1,251,227                      | -                    | 1,251,227           |
| Tenants' deposits - net of current portion              | -                     | 21,023,323                     | 54,549               | 21,077,872          |
| Lease liabilities                                       | 655,840               | 2,636,354                      | 22,131,323           | 25,423,517          |
| Other noncurrent liabilities***                         | -                     | 4,397,581                      | 794,710              | 5,192,291           |
|   | <b>₱127,064,946</b>   | <b>₱260,469,258</b>            | <b>₱40,255,392</b>   | <b>₱427,789,596</b> |



|   | 2019                  |                                |                      | Total        |
|---|-----------------------|--------------------------------|----------------------|--------------|
|   | Within 1 Year         | More than 1 Year<br>to 5 Years | More than<br>5 Years |              |
|   | <i>(In Thousands)</i> |                                |                      |              |
| 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 |

\* Excluding nonfinancial liabilities and lease liabilities amounting to ₱17,585 million and ₱14,507 million as at December 31, 2020 and 2019, respectively.

\*\* Excluding residential customers' deposits amounting to ₱254 million and ₱849 million as at December 31, 2020 and 2019, respectively.

\*\*\* Excluding nonfinancial liabilities and lease liabilities amounting to ₱19,815 million and ₱5,086 million as at December 31, 2020 and 2019, 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 and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

As at December 31, 2020 and 2019, 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, 2020 and 2019, the credit quality of the Company's financial assets is as follows:

|   | 2020  |                   |                           | Total              |
|---|---|-------------------|---------------------------|--------------------|
|   | Neither Past Due nor Impaired<br>High Quality | Standard Quality  | Past Due but not Impaired |                    |
| <i>(In Thousands)</i>   |   |                   |                           |                    |
| <b>Financial assets at amortized cost</b>                                   |   |                   |                           |                    |
| Cash and cash equivalents*  | ₱30,560,051                                   | ₱-                | ₱-                        | ₱30,560,051        |
| Receivables**   | 129,226                                       | 1,328,309         | 13,215,176                | 14,672,711         |
| Cash in escrow (included under "Prepaid expenses and other current assets") | 144,209                                       | -                 | -                         | 144,209            |
| Time deposits (included under "Other noncurrent assets")                    | 1,356,442                                     | -                 | -                         | 1,356,442          |
| <b>Financial assets at FVTPL</b>  |   |                   |                           |                    |
| Derivative assets   | 2,747   | -                 | -                         | 2,747              |
| <b>Financial assets at FVOCI</b>  |   |                   |                           |                    |
| Equity instruments  | 16,696,333                                    | 3,381             | -                         | 16,699,714         |
|   | <b>₱48,889,008</b>                            | <b>₱1,331,690</b> | <b>₱13,215,176</b>        | <b>₱63,435,874</b> |

\* Excluding cash on hand amounting to ₱102 million

\*\* Excluding nonfinancial assets amounting to ₱44,272 million

|   | 2019  |                    |                           | Total              |
|---|---|--------------------|---------------------------|--------------------|
|   | Neither Past Due nor Impaired<br>High Quality | Standard Quality   | Past Due but not Impaired |                    |
| <i>(In Thousands)</i>   |   |                    |                           |                    |
| <b>Financial assets at amortized cost</b>                                   |   |                    |                           |                    |
| 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          |
| <b>Financial assets at FVTPL</b>  |   |                    |                           |                    |
| Derivative assets   | 826,315                                       | -                  | -                         | 826,315            |
| <b>Financial assets at FVOCI</b>  |   |                    |                           |                    |
| Equity instruments  | 21,076,655                                    | 3,381              | -                         | 21,080,036         |
|   | <b>₱58,962,495</b>                            | <b>₱10,635,840</b> | <b>₱8,089,198</b>         | <b>₱77,687,533</b> |

\* Excluding cash on hand amounting to ₱200 million

\*\* Excluding nonfinancial assets amounting to ₱34,787 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, 2020 and 2019) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

|                             | <b>2020</b>                   |                         |
|-----------------------------|-------------------------------|-------------------------|
|                             | <b>Change in Equity Price</b> | <b>Effect on Equity</b> |
|                             |                               | <i>(In Millions)</i>    |
| Equity instruments at FVOCI | <b>+1.19%</b>                 | <b>₱53</b>              |
|                             | <b>-1.19%</b>                 | <b>(53)</b>             |
|                             | <b>2019</b>                   |                         |
|                             | <b>Change in Equity Price</b> | <b>Effect on Equity</b> |
|                             |                               | <i>(In Millions)</i>    |
| Equity instruments at FVOCI | <b>+2.86%</b>                 | <b>₱133</b>             |
|                             | <b>-2.86%</b>                 | <b>(133)</b>            |

#### 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

|   | <b>2020</b>           | <b>2019</b>  |
|---|-----------------------|--------------|
|   | <i>(In Thousands)</i> |              |
| Loans payable   | <b>₱10,900,000</b>    | ₱100,000     |
| Current portion of long-term debt   | <b>42,738,350</b>     | 23,521,373   |
| Long-term debt - net of current portion   | <b>218,830,647</b>    | 214,333,050  |
| Total interest-bearing debt (a)   | <b>272,468,997</b>    | 237,954,423  |
| Total equity attributable to equity holders of the parent                               | <b>309,284,067</b>    | 300,916,171  |
| Total interest-bearing debt and equity attributable to equity holders of the parent (b) | <b>₱581,753,064</b>   | ₱538,870,594 |
| Gearing ratio (a/b)   | <b>47%</b>            | 44%          |



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

|   | 2020                  | 2019         |
|---|-----------------------|--------------|
|   | <i>(In Thousands)</i> |              |
| Loans payable   | <b>₱10,900,000</b>    | ₱100,000     |
| Current portion of long-term debt   | <b>42,738,350</b>     | 23,521,373   |
| Long-term debt - net of current portion   | <b>218,830,647</b>    | 214,333,050  |
| Less cash and cash equivalents  | <b>(30,661,614)</b>   | (34,599,959) |
| Total net interest-bearing debt (a)   | <b>241,807,383</b>    | 203,354,464  |
| Total equity attributable to equity holders of the parent                                   | <b>309,284,067</b>    | 300,916,171  |
| Total net interest-bearing debt and equity attributable to equity holders of the parent (b) | <b>₱551,091,450</b>   | ₱504,270,635 |
| Gearing ratio (a/b)   | <b>44%</b>            | 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:

|  | December 31, 2020     |                     |                    |                   |                     |
|--|-----------------------|---------------------|--------------------|-------------------|---------------------|
|  | Carrying Value        | Fair Value          | Level 1            | Level 2           | Level 3             |
|  | <i>(In Thousands)</i> |                     |                    |                   |                     |
| <b>Financial Assets</b>  |                       |                     |                    |                   |                     |
| Financial assets at FVTPL:                                     |                       |                     |                    |                   |                     |
| Derivative assets  | ₱2,747                | ₱2,747              | ₱-                 | ₱2,747            | ₱-                  |
| Financial assets at amortized cost:                            |                       |                     |                    |                   |                     |
| Time deposits (included under "Other noncurrent assets - net") | 1,356,442             | 1,356,442           | -                  | 1,356,442         | -                   |
| Financial assets at FVOCI:                                     |                       |                     |                    |                   |                     |
| Equity instruments   | 16,699,714            | 16,699,714          | 16,696,333         | -                 | 3,381               |
|  | <b>₱18,058,903</b>    | <b>₱18,058,903</b>  | <b>₱16,696,333</b> | <b>₱1,359,189</b> | <b>₱3,381</b>       |
| <b>Financial Liabilities</b>                                   |                       |                     |                    |                   |                     |
| Financial liabilities at FVTPL:                                |                       |                     |                    |                   |                     |
| Derivative liabilities   | ₱2,803,397            | ₱2,803,397          | ₱-                 | ₱2,803,397        | ₱-                  |
| Loans and borrowings:  |                       |                     |                    |                   |                     |
| Liability for purchased land - net of current portion          | 1,251,227             | 1,204,295           | -                  | -                 | 1,204,295           |
| Long-term debt - net of current portion                        | 218,830,647           | 214,950,879         | -                  | -                 | 214,950,879         |
| Lease liability - net of current portion                       | 11,009,422            | 11,009,422          | -                  | -                 | 11,009,422          |
| Tenants' deposits - net of current portion                     | 21,077,872            | 20,772,115          | -                  | -                 | 20,772,115          |
| Other noncurrent liabilities*                                  | 5,192,291             | 5,147,613           | -                  | -                 | 5,147,613           |
|  | <b>₱260,164,856</b>   | <b>₱255,887,721</b> | <b>₱-</b>          | <b>₱2,803,397</b> | <b>₱253,084,324</b> |

\*Excluding nonfinancial liabilities amounting to ₱8,806 million as at December 31, 2020.



|  | December 31, 2019     |                     |                    |                   |                     |
|--|-----------------------|---------------------|--------------------|-------------------|---------------------|
|  | Carrying Value        | Fair Value          | Level 1            | Level 2           | Level 3             |
|  | <i>(In Thousands)</i> |                     |                    |                   |                     |
| <b>Financial Assets</b>                                  |                       |                     |                    |                   |                     |
| Financial assets at FVTPL:                               |                       |                     |                    |                   |                     |
| Derivative assets  | ₱826,315              | ₱826,315            | ₱-                 | ₱826,315          | ₱-                  |
| Financial assets at amortized cost:                      |                       |                     |                    |                   |                     |
| Time deposits (included under "Other noncurrent assets") | 2,412,972             | 2,412,972           | -                  | 2,412,972         | -                   |
| Financial assets at FVOCI:                               |                       |                     |                    |                   |                     |
| Equity instruments                                       | 21,080,036            | 21,080,036          | 21,076,655         | -                 | 3,381               |
|  | <b>₱24,319,323</b>    | <b>₱24,319,323</b>  | <b>₱21,076,655</b> | <b>₱3,239,287</b> | <b>₱3,381</b>       |
| <b>Financial Liabilities</b>                             |                       |                     |                    |                   |                     |
| Financial liabilities at FVTPL:                          |                       |                     |                    |                   |                     |
| Derivative liabilities                                   | ₱711,617              | ₱711,617            | ₱-                 | ₱711,617          | ₱-                  |
| Loans and borrowings:                                    |                       |                     |                    |                   |                     |
| Liability for purchased land - net of current portion    | 4,214,234             | 3,895,885           | -                  | -                 | 3,895,885           |
| Long-term debt - net of current portion                  | 214,333,050           | 210,364,038         | -                  | -                 | 210,364,038         |
| Lease liability - net of current portion                 | 11,151,217            | 11,151,217          | -                  | -                 | 11,151,217          |
| Tenants' deposits - net of current portion               | 20,797,637            | 20,598,862          | -                  | -                 | 20,598,862          |
| Other noncurrent liabilities*                            | 8,184,737             | 7,973,701           | -                  | -                 | 7,973,701           |
|  | <b>₱259,392,492</b>   | <b>₱254,695,320</b> | <b>₱-</b>          | <b>₱711,617</b>   | <b>₱253,983,703</b> |

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

### 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).

During the years ended December 31, 2020 and 2019, 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.

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:

*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:

| <u>Debt Type</u>    | <u>Fair Value Assumptions</u>   |
|---------------------|---|
| Fixed Rate Loans    | Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.24% to 4.67% and from 2.96% to 6.48% as at December 31, 2020 and 2019, 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 3.72% to 4.44% and 6.95% to 6.99% as at December 31, 2020 and 2019, respectively. |

*Tenants' Deposits, Liability for Purchased Land, Lease Liabilities 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 2.13% to 8.03% and 4.41% to 7.86% as at December 31, 2020 and 2019, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.



Financial Instruments Accounted for as Cash Flow Hedges

The table below shows information on the Company's cross currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated loans.

| Year<br>Obtained      | Maturity | Hedged Loan                       | Outstanding<br>Notional<br>Amount | Agreed<br>Equivalent | Receive                | Pay           | Aggregate Fair Value  |                   |
|-----------------------|----------|-----------------------------------|-----------------------------------|----------------------|------------------------|---------------|-----------------------|-------------------|
|                       |          |                                   |                                   |                      |                        |               | 2020                  | 2019              |
| <i>(In Thousands)</i> |          |                                   |                                   |                      |                        |               | <i>(In Thousands)</i> |                   |
| 2020                  | 2022     | Four - year term loans            | \$100,000                         | ₱4,828,000           | 3 months LIBOR+margin% | 2.88%         | <b>(₱40,795)</b>      | ₱-                |
| 2020                  | 2024     | Four - year term loans            | \$150,000                         | ₱7,277,500           | 3 months LIBOR+margin% | 3.64% - 3.70% | <b>(206,455)</b>      | -                 |
| 2019                  | 2024     | Five - year term loans            | \$286,000                         | ¥1,919,208           | 3 months LIBOR+margin% | 3.86% - 3.97% | <b>(778,539)</b>      | 368,426           |
| 2018                  | 2023     | Five - year term syndicated loans | \$110,000                         | ₱5,865,700           | 3 months LIBOR+margin% | 6.37% - 6.39% | <b>(1,109,138)</b>    | (711,617)         |
| 2018                  | 2022     | Five - year term loans            | \$100,000                         | ¥671,715             | 3 months LIBOR+margin% | 4.95% - 5.43% | <b>(310,808)</b>      | 2,117             |
|                       |          |                                   |                                   |                      |                        |               | <b>(₱2,445,735)</b>   | <b>(₱341,074)</b> |



*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, 2020 and 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 negative ¥300 million as at December 31, 2020 and ¥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). Interest rate swaps agreement with the notional amount of US\$150 million matured in April 2019. Fair value of the outstanding interest rate swaps amounted to negative ¥55 million as at December 31, 2020 and positive ¥69 million as at December 31, 2019.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2020.

Cumulative fair value changes recognized in equity under other comprehensive income from the matured interest rate swaps amounting to nil and ¥18 million gain was recognized in the consolidated statements of income for the years ended December 31, 2020 and 2019.

Below is the maturity profile of derivative financial instruments accounted for as cash flow hedges as at December 31, 2020 and 2019:

| Hedge Instruments*   | 2020                          |                   |                   | Total               |
|----------------------|-------------------------------|-------------------|-------------------|---------------------|
|                      | Within 1 year                 | 2 to 3 years      | 4 to 5 years      |                     |
|                      | <i>(amounts in thousands)</i> |                   |                   |                     |
| Cross currency swaps | USD-                          | USD460,000        | USD286,000        | USD746,000          |
| Principal only swaps | 270,000                       | -                 | -                 | 270,000             |
| Interest rate swaps  | 270,000                       | -                 | -                 | 270,000             |
|                      | <b>USD540,000</b>             | <b>USD460,000</b> | <b>USD286,000</b> | <b>USD1,286,000</b> |
|                      | 2019                          |                   |                   |                     |
| Hedge Instruments*   | Within 1 year                 | 2 to 3 years      | 4 to 5 years      | Total               |
|                      | <i>(amounts in thousands)</i> |                   |                   |                     |
| 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        |

\*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 fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to negative ₱2,801 million as at December 31, 2020 and positive ₱115 million as at December 31, 2019, respectively, was taken to equity under other comprehensive income. For the years ended December 31, 2020 and 2019, no ineffectiveness was recognized in the consolidated statement of income. Foreign currency translation arising from the hedged loan amounting to ₱2,474 million gain in 2020, ₱477 million loss in 2019 and ₱2,247 million gain in 2018 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 swaps in 2019, amounting to ₱22 million gain, was recognized in the consolidated statement of comprehensive income.

#### Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

|   | 2020                  | 2019      |
|---|-----------------------|-----------|
|   | <i>(In Thousands)</i> |           |
| Balance at beginning of year              | <b>₱114,698</b>       | ₱517,925  |
| Net changes in fair value during the year | <b>(2,915,348)</b>    | (109,736) |
| Fair value of settled derivatives         | –                     | (293,491) |
| Balance at end of year                    | <b>(₱2,800,650)</b>   | ₱114,698  |

## 29. EPS Computation

Basic/diluted EPS is computed as follows:

|  | 2020   | 2019        | 2018        |
|--|--|-------------|-------------|
|  | <i>(In Thousands, Except Per Share Data)</i> |             |             |
| Net income attributable to equity holders of the parent (a)  | <b>₱18,006,512</b>                           | ₱38,085,601 | ₱32,172,886 |
| Common shares issued   | <b>33,166,300</b>                            | 33,166,300  | 33,166,300  |
| Less weighted average number treasury stock<br>(see Note 19) | <b>4,309,888</b>                             | 4,309,888   | 4,311,949   |
| Weighted average number of common shares<br>outstanding (b)  | <b>28,856,412</b>                            | 28,856,412  | 28,854,351  |
| Earnings per share (a/b)                                     | <b>₱0.624</b>                                | ₱1.320      | ₱1.115      |



### 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):

|                                   | 2020                  |                |                   | 2019          |                |                   |
|-----------------------------------|-----------------------|----------------|-------------------|---------------|----------------|-------------------|
|                                   | Loans Payable         | Long-term Debt | Lease Liabilities | Loans Payable | Long-term Debt | Lease Liabilities |
|                                   | <i>(In Thousands)</i> |                |                   |               |                |                   |
| Balance at beginning of year      | ₱100,000              | ₱237,854,423   | ₱11,213,547       | ₱39,400       | ₱222,771,886   | ₱-                |
| Effect of PFRS 16 adoption        | -                     | -              | -                 | -             | -              | 11,293,984        |
| Availments                        | 36,500,000            | 54,903,912     | -                 | 580,000       | 41,813,638     | -                 |
| Payments                          | (25,700,000)          | (28,993,349)   | (85,013)          | (519,400)     | (25,466,777)   | (80,437)          |
| Cumulative translation adjustment | -                     | 366,233        | -                 | -             | (1,823,229)    | -                 |
| Foreign exchange movement         | -                     | (2,443,642)    | -                 | -             | 548,786        | -                 |
| Loan refinancing                  | -                     | -              | -                 | -             | -              | -                 |
| Others                            | -                     | (118,580)      | (52,218)          | -             | 10,119         | -                 |
| Balance at end of year            | ₱10,900,000           | ₱261,568,997   | ₱11,076,316       | ₱100,000      | ₱237,854,423   | ₱11,213,547       |

There are no non-cash changes in accrued interest and dividends payable. Others include debt issue cost additions and rental concession on certain land leases due to COVID-19.

### 31. Other Matters

#### COVID-19 Pandemic

The declaration of COVID-19 by the World Health Organization (WHO) as a pandemic and declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country starting March 16, 2020 have caused disruptions in the Company's business activities. There are increased market activities with the easing of the quarantine measures in key areas in the Philippines. Easing of the quarantine restrictions and rollout of the national vaccination program will further improve market activities.

#### Corporate Recovery and Tax Incentives for Enterprises Act” or “CREATE”

On February 1, 2021, the Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No.1357 (the CREATE). The general features of the CREATE bill are the following:

- Reduction in current income tax rate effective July 1, 2020;
- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023;
- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020; and
- Effective July 1, 2020 until June 30,2023, the MCIT rate shall be one percent 1%.

As at February 15, 2021, the harmonized copy of the CREATE bill has been transmitted to the Office of the President for signing or approval into law.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and its Subsidiaries (the "Company") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, included in this Form 17-A, and have issued our report thereon dated February 15, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Sherwin V. Yason

Partner

CPA Certificate No. 104921

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

August 6, 2018, valid until August 5, 2021

Tax Identification No. 217-740-478

BIR Accreditation No. 08-001998-112-2020,

November 27, 2020, valid until November 26, 2023

PTR No. 8534387, January 4, 2021, Makati City

February 15, 2021



## **INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and its Subsidiaries (the "Company") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated February 15, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's consolidated financial statements as at December 31, 2020 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

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. 08-001998-112-2020,  
November 27, 2020, valid until November 26, 2023

PTR No. 8534387, January 4, 2021, Makati City

February 15, 2021



## Annex I

**SM Prime Holdings, Inc.**  
**10<sup>th</sup> 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**

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2020**

|  |                                      |
|--|--------------------------------------|
| Unappropriated retained earnings as at January 1, 2020                                     | ₱170,367,434,940                     |
| Adjustments for:   |                                      |
| Non-actual/unrealized income, net of applicable tax:                                       |                                      |
| Equity in net earnings of subsidiaries, associates and joint ventures                      | (104,710,606,269)                    |
| Treasury stock   | (2,613,650,429)                      |
| Unappropriated retained earnings as at January 1, 2020, available for dividend declaration | <u>63,043,178,242</u>                |
| Net income closed to retained earnings in 2020   | 17,628,322,425                       |
| Adjustments for:   |                                      |
| Non-actual/unrealized income, net of applicable tax:                                       |                                      |
| Equity in net earnings of subsidiaries, associates and joint ventures                      | (15,360,484,426)                     |
| Net income actually earned in 2020   | <u>2,267,837,999</u>                 |
| Less: Cash dividends in 2020   | <u>(5,342,657,852)</u>               |
| <b>Retained earnings as at December 31, 2020 available for dividend declaration</b>        | <b><u><u>₱59,968,358,389</u></u></b> |

## Schedule A

## SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

## Financial Assets

As at December 31, 2020

(Amounts in Thousands except for Number of Shares)

| Name of Issuing Entity and Association of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet as at December 31, 2020 | Income Received and Accrued |
|--|---|---|-----------------------------|
| <b>Financial Assets at Amortized Cost*</b>           |   |   |                             |
| Temporary investments:                               |   |   |                             |
| Banco de Oro (BDO)                                   | PHP 13,406,506  | PHP 13,406,506  |                             |
| China Banking Corporation (CHIB)                     | PHP 316,532   | 316,532   |                             |
| China Merchants Bank                                 | RMB 277,000   | 2,037,999   |                             |
| Industrial and Commercial Bank of China              | RMB 200,400   | 1,474,422   |                             |
| Bank of East Asia Ltd                                | RMB 115,000   | 846,101   |                             |
| China Industrial Bank                                | RMB 6,000   | 44,144  |                             |
| Others   | PHP 51,300  | 51,300  |                             |
| Time deposits on hold:                               |   |   |                             |
| BDO  | PHP 1,300,000   | 1,300,000   |                             |
| CHIB   | PHP 56,442  | 56,442  |                             |
| Cash in escrow:                                      |   |   |                             |
| CHIB   | PHP 137,899   | 137,899   |                             |
| BDO  | PHP 6,310   | 6,310   |                             |
|  |   | <b>PHP 19,677,655</b>                                     | <b>PHP 938,366</b>          |
| <b>Financial Assets at FVPL</b>                      |   |   |                             |
| Tagaytay Midlands Golf Club, Inc.                    | 33 shares   | PHP 21,902  |                             |
| The Country Club at Tagaytay Highlands               | 7 shares  | 1,400   |                             |
| Tagaytay Highlands International Golf Club Inc       | 1 share   | 804   |                             |
| Derivative assets                                    | PHP 3   | 3   |                             |
|  |   | <b>PHP 24,109</b>   | <b>PHP 0</b>                |
| <b>Financial Assets at FVOCI</b>                     |   |   |                             |
| BDO Unibank, Inc.                                    | 90,024,395 shares                                       | PHP 9,614,605   |                             |
| Ayala Corporation                                    | 7,690,430 shares  | 6,359,986   |                             |
| Shang Properties, Inc.                               | 189,550,548 shares                                      | 513,682   |                             |
| SM Investments Corporation                           | 146,104 shares  | 153,263   |                             |
| Republic Glass Holdings Corporation                  | 14,230,000 shares                                       | 43,402  |                             |
| Picop Resources, Inc.                                | 40,000,000 shares                                       | 8,200   |                             |
| Philippine Long Distance Telephone Company           | 253,270 shares  | 2,533   |                             |
| Export & Industry Bank                               | 7,829,000 shares  | 2,036   |                             |
| Prime Media Holdings, Inc.                           | 500,000 shares  | 430   |                             |
| Benguet Corporation                                  | 266,757 shares  | 827   |                             |
| Others   | 964 shares  | 750   |                             |
|  |   | <b>PHP 16,699,714</b>                                     | <b>PHP 197,266</b>          |
|  |   | <b>PHP 36,401,478</b>                                     | <b>PHP 1,135,632</b>        |

\*Excluding cash on hand and in banks.

## Schedule C

### SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

As at December 31, 2020

(Amounts in Thousands)

| Name and Designation of Debtor                                    | Balance at<br>Beginning of<br>Period | Additions         | Amounts<br>Collected | Amounts<br>Written<br>Off | Current   | Not Current        | Balance at<br>End of<br>Period |
|---|--------------------------------------|-------------------|----------------------|---------------------------|-----------|--------------------|--------------------------------|
| SM Land (China) Limited and Subsidiaries                          | ₱6,125,544                           | 2,163,446         | (₱507,820)           | ₱-                        | ₱-        | ₱7,781,170         | ₱7,781,170                     |
| San Lazaro Holdings Corporation                                   | 1,361,697                            | 60                | (7)                  | -                         | -         | 1,361,750          | 1,361,750                      |
| Costa del Hamilo, Inc. and Subsidiary                             | 850,750                              | 9,636             | (16,382)             | -                         | -         | 844,004            | 844,004                        |
| SM Development Corporation and Subsidiaries                       | 654,322                              | 214,141           | (215,512)            | -                         | -         | 652,951            | 652,951                        |
| Premier Central, Inc.   | 372,387                              | 346,218           | (88,499)             | -                         | -         | 630,106            | 630,106                        |
| Prime_Commercial Property Management Corporation and Subsidiaries | 156,058                              | 314,432           | (41,726)             | -                         | -         | 428,764            | 428,764                        |
| Mindpro Inc.  | 325,920                              | 1,434             | (1,127)              | -                         | -         | 326,227            | 326,227                        |
| SM Prime Holdings, Inc. (Parent)                                  | 424,633                              | 3,889,836         | (4,172,818)          | -                         | -         | 141,651            | 141,651                        |
| SM Hotels and Conventions Corp. and Subsidiaries                  | 67,473                               | 619,131           | (616,009)            | -                         | -         | 70,595             | 70,595                         |
| Associated Development Corporation                                | 169,500                              | -                 | (114,750)            | -                         | -         | 54,750             | 54,750                         |
| SM Arena Complex Corporation                                      | 19,782                               | 39,538            | (9,797)              | -                         | -         | 49,523             | 49,523                         |
| Tagaytay Resort and Development Corporation                       | 36,521                               | -                 | -                    | -                         | -         | 36,521             | 36,521                         |
| First Asia Realty Development Corporation                         | 65,893                               | 27,406            | (64,518)             | -                         | -         | 28,781             | 28,781                         |
| Consolidated Prime Dev. Corp.                                     | 22,545                               | 88,547            | (92,415)             | -                         | -         | 18,677             | 18,677                         |
| Premier Southern Corp.  | 17,551                               | 116,018           | (115,542)            | -                         | -         | 18,027             | 18,027                         |
| Southernpoint Properties Corp.                                    | 11,218                               | 61,218            | (65,574)             | -                         | -         | 6,862              | 6,862                          |
| First Leisure Ventures Group Inc.                                 | 2,538                                | 3,474             | -                    | -                         | -         | 6,012              | 6,012                          |
| CHAS Realty and Development Corporation and Subsidiaries          | 5,588                                | 25,353            | (28,796)             | -                         | -         | 2,145              | 2,145                          |
| MOA Esplanade Port, Inc.  | 1,482                                | 644               | -                    | -                         | -         | 2,126              | 2,126                          |
| Prime Metroestate, Inc. and Subsidiary                            | 532                                  | 481               | (174)                | -                         | -         | 839                | 839                            |
| Highlands Prime Inc.  | 643                                  | -                 | (643)                | -                         | -         | -                  | -                              |
| Supermalls Transport Services, Inc.                               | 6,981                                | 16,411            | (23,392)             | -                         | -         | -                  | -                              |
|   | <b>₱10,699,558</b>                   | <b>₱7,937,424</b> | <b>(₱6,175,501)</b>  | <b>₱-</b>                 | <b>₱-</b> | <b>₱12,461,481</b> | <b>₱12,461,481</b>             |

**Schedule H**

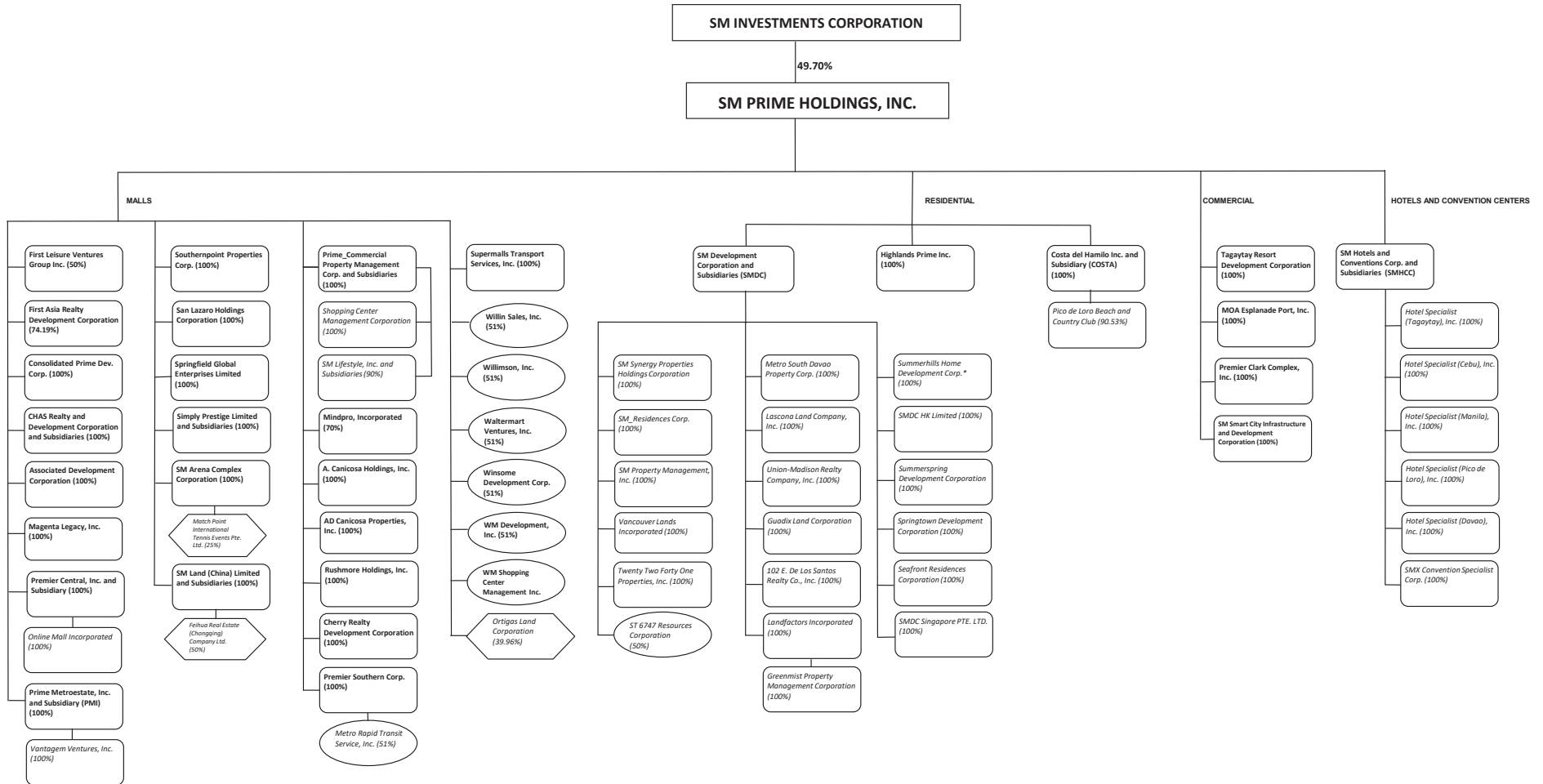
**SM PRIME HOLDINGS, INC.**

**Capital Stock**

**As at December 31, 2020**

*(Shares in Thousands)*

| <b>Title of Issue</b> | <b>Number of Shares Authorized</b> | <b>Number of Shares Issued as Shown Under Related Balance Sheet Caption</b> | <b>Number of Shares Outstanding as Shown Under Related Balance Sheet Caption</b> | <b>Number of Shares Held by Related Parties</b> | <b>Directors, Officers and Employees</b> | <b>Others</b> |
|-----------------------|------------------------------------|---|--|---|--|---------------|
| Common                | 40,000,000                         | 33,166,300  | 28,879,232   | 16,202,238                                      | 3,349,636                                | 9,327,358     |



\* Summerhills Home Development Corp. is 79.6% owned by SMDC and 20.4% owned by SMPH  
 \*\*Affluent Capital Enterprises Limited and Subsidiaries and Mega Make Enterprises Limited and Subsidiaries are now subsidiaries of SM Land (China) Limited.  
**Note: % Refers to Effective Ownership**

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**AS OF DECEMBER 31, 2020**

| Ratio   | Formula   | December 31,<br>2020 | December 31,<br>2019 |
|---|---|----------------------|----------------------|
| <b>Current ratio</b>                          | $\frac{\text{Total current assets}}{\text{Total current liabilities}}$  | 1.16                 | 1.60                 |
| <b>Acid - Test Ratio</b>                      | $\frac{\text{Total current assets less inventory and prepaid expenses}}{\text{Total current liabilities}}$  | 0.66                 | 0.93                 |
| <b>Solvency Ratio</b>                         | $\frac{\text{Total assets}}{\text{Total liabilities}}$  | 1.75                 | 1.83                 |
| <b>Debt-to-equity ratio</b>                   | $\frac{\text{Total interest-bearing liabilities}}{\text{Total equity attributable to equity holders of the parent}}$  | 47:53                | 44:56                |
| <b>Asset to equity ratio</b>                  | $\frac{\text{Total assets}}{\text{Total equity attributable to equity holders of the parent}}$  | 2.34                 | 2.22                 |
| <b>Interest rate coverage ratio</b>           | $\frac{\text{Earnings before interest, income taxes depreciation and amortization (EBITDA)}}{\text{Interest expense}}$  | 4.57                 | 7.56                 |
| <b>Return on equity</b>                       | $\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total average equity attributable to equity holders of the parent}}$                             | 6%                   | 13%                  |
| <b>Return on assets</b>                       | $\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total average investment properties and inventories}}$   | 4%                   | 9%                   |
| <b>Net income margin</b>                      | $\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total revenue}}$   | 22%                  | 32%                  |
| <b>Other ratios:</b><br><b>Debt to EBITDA</b> | $\frac{\text{Total interest-bearing liabilities}}{\text{EBITDA}}$   | 6.94                 | 3.56                 |
| <b>Net debt-to-equity ratio</b>               | $\frac{\text{Total interest-bearing liabilities less cash and cash equivalents and investment securities}}{\text{Total equity attributable to equity holders of the parent}}$ | 44:56                | 40:60                |

**SCHEDULE FOR LISTED COMPANIES WITH A RECENT  
OFFERING OF SECURITIES TO THE PUBLIC**

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES  
Retail Bond – Series K and L Bonds  
As of December 31, 2020**

**(1) Gross and Net Proceeds as Disclosed in the Final Prospectus**

|                    |                        |
|--------------------|------------------------|
| Gross Proceeds     | ₱15,000,000,000        |
| Estimated Expenses | (242,098,391)          |
| Net Proceeds       | <u>₱14,757,901,609</u> |

**(2) Actual Gross and Net Proceeds**

|                 |                        |
|-----------------|------------------------|
| Gross Proceeds  | ₱15,000,000,000        |
| Actual Expenses | (180,615,165)          |
| Net Proceeds    | <u>₱14,819,384,835</u> |

**(3) Each Expenditure Item where the Proceeds were Used**

The net proceeds was used to finance capital expenditures of the following:

| <u>Projects</u>                              | <u>Amounts in million</u> |
|--|---------------------------|
| SM City Tuguegarao                           | ₱2,455                    |
| SM City Grand Central                        | 1,672                     |
| SM City Roxas                                | 1,527                     |
| SM City Sta. Rosa Expansion                  | 1,481                     |
| SM City Tanza                                | 1,187                     |
| SM City Sto. Tomas                           | 1,123                     |
| SM City Bataan                               | 1,095                     |
| SM City Sorsogon                             | 992                       |
| SM City Daet                                 | 784                       |
| SM Sta. Rosa Yulo                            | 608                       |
| SM City Urdaneta Central 3L Expansion        | 479                       |
| SM San Jose Nueva Ecija                      | 432                       |
| SM Bagumbong, North Caloocan                 | 260                       |
| SM City Masinag Carpark Building             | 204                       |
| SM Center San Pedro                          | 155                       |
| SM City Butuan                               | 150                       |
| Sucat Building B Redevelopment               | 122                       |
| SM City Masinag Exp Bridgelink Redevelopment | 55                        |
| NU Baliwag                                   | 35                        |
| SM Zamboanga                                 | 3                         |
| <b>TOTAL</b>                                 | <b><u>₱14,819</u></b>     |

**(4) As of December 31, 2020, ₱14,819 million was used in financing capital expenditures for the expansion and construction of mall projects.**



SM Prime Holdings, Inc.  
10/F Mall of Asia Arena Annex Building,  
Coral Way corner J.W. Diokno Boulevard,  
Mall of Asia Complex, Pasay City 1300, Philippines

## Statement of Management's Responsibility for Financial Statements

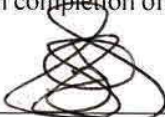
The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, 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 15<sup>th</sup> of February, 2021

**SUBSCRIBED AND SWORN** to before me this FEB 15 2021 at CITY OF MANILA,  
affiants exhibiting to me their Philippine passports, as follows:

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

Doc. No. 113 ;  
Page No. 23 ;  
Book No. XX ;  
Series of 2021.

  
**CHESTER T. BORDEOS**  
Notary Public for and in the City of Manila  
Until 30 June 2021 under SC Resolution  
En Banc dated 12/01/20 (B.M. 3795)  
Attorney's Roll No. 41934; TIN 904-465-536  
PTR No. 9827232; 01/05/21; Manila  
IBP Life Roll No. 07903; 01/08/09; Albay  
MCLE Compliance No. VI-0015889 ; 12-13-18



## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries, which comprise the interim consolidated balance sheet as at June 30, 2021 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2021 and 2020, and other explanatory information. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*, as modified by the application of the financial reporting reliefs issued and approved by the Securities and Exchange Commission (SEC), as described in Note 2 to the interim condensed consolidated financial statements. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### ***Scope of Review***

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*, as modified by the application of the financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic, as described in Note 2 to the interim condensed consolidated financial statements.



***Emphasis of Matter – Basis of Preparation***

We draw attention to Note 2 to the interim condensed consolidated financial statements which indicates that the interim condensed consolidated financial statements have been prepared in accordance with PAS 34, as modified by the application of the financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic. The impact of the application of the financial reporting reliefs on the 2021 interim condensed consolidated financial statements are discussed in detail in Note 3. Our report is not modified in respect of this matter.

SYCIP GORRES VELAYO & CO.

*Belinda T. Beng Hui*

Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0943-AR-3 (Group A),  
March 14, 2019, valid until March 13, 2022

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-078-2020,  
December 3, 2020, valid until December 2, 2023

PTR No. 8534224, January 4, 2021, Makati City

August 31, 2021



**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES****INTERIM CONSOLIDATED BALANCE SHEET****June 30, 2021****(With Comparative Audited Figures as at December 31, 2020)***(Amounts in Thousands)*

|  | June 30,<br>2021<br>(Unaudited) | December 31,<br>2020<br>(Audited) |
|--|---------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                 |                                   |
| <b>Current Assets</b>  |                                 |                                   |
| Cash and cash equivalents (Notes 5, 17, 21 and 22)   | ₱26,839,332                     | ₱30,661,614                       |
| Receivables and contract assets (Notes 6, 17, 21 and 22)   | 58,159,280                      | 58,944,930                        |
| Real estate inventories (Note 7)   | 46,945,563                      | 43,691,877                        |
| Equity instruments at fair value through other comprehensive income (FVOCI) (Notes 8, 17, 21 and 22) | 562,627                         | 568,146                           |
| Derivative assets (Notes 21 and 22)  | –                               | 2,747                             |
| Prepaid expenses and other current assets (Notes 9 and 17)   | 24,724,040                      | 23,205,662                        |
| <b>Total Current Assets</b>  | <b>157,230,842</b>              | <b>157,074,976</b>                |
| <b>Noncurrent Assets</b>   |                                 |                                   |
| Equity instruments at FVOCI - net of current portion (Notes 8, 17, 21 and 22)                        | 16,493,970                      | 16,131,568                        |
| Investment properties - net (Note 10)  | 454,120,025                     | 436,159,081                       |
| Investments in associates and joint ventures (Note 11)   | 28,480,683                      | 27,735,239                        |
| Deferred tax assets - net (Note 24)  | 902,212                         | 831,546                           |
| Derivative assets - net of current portion (Notes 21 and 22)   | 22,481                          | –                                 |
| Other noncurrent assets - net (Notes 12, 17, 21 and 22)  | 92,163,598                      | 84,426,515                        |
| <b>Total Noncurrent Assets</b>   | <b>592,182,969</b>              | <b>565,283,949</b>                |
|  | <b>₱749,413,811</b>             | <b>₱722,358,925</b>               |
| <b>LIABILITIES AND EQUITY</b>  |                                 |                                   |
| <b>Current Liabilities</b>   |                                 |                                   |
| Loans payable (Notes 13, 17, 21 and 22)  | ₱4,442,567                      | ₱10,900,000                       |
| Accounts payable and other current liabilities (Notes 14, 17, 21 and 22)                             | 79,618,984                      | 81,033,985                        |
| Current portion of long-term debt (Notes 15, 17, 21 and 22)  | 27,959,206                      | 42,738,350                        |
| Derivative liabilities (Notes 21 and 22)   | 356,549                         | 357,662                           |
| Income tax payable   | 583,679                         | 957,906                           |
| <b>Total Current Liabilities</b>   | <b>112,960,985</b>              | <b>135,987,903</b>                |
| <b>Noncurrent Liabilities</b>  |                                 |                                   |
| Long-term debt - net of current portion (Notes 15, 17, 21 and 22)                                    | 254,408,917                     | 218,830,647                       |
| Tenants' and customers' deposits - net of current portion (Notes 14, 21 and 22)                      | 21,553,885                      | 21,331,869                        |
| Liability for purchased land - net of current portion (Notes 14, 21 and 22)                          | 2,177,918                       | 1,251,227                         |
| Deferred tax liabilities - net (Note 24)   | 8,482,776                       | 6,786,018                         |
| Derivative liabilities - net of current portion (Notes 21 and 22)                                    | 1,880,115                       | 2,445,735                         |
| Other noncurrent liabilities (Notes 14, 21 and 22)   | 27,005,874                      | 25,007,898                        |
| <b>Total Noncurrent Liabilities</b>  | <b>315,509,485</b>              | <b>275,653,394</b>                |
| <b>Total Liabilities (Carried Forward)</b>   | <b>428,470,470</b>              | <b>411,641,297</b>                |



|  | <b>June 30,<br/>2021<br/>(Unaudited)</b> | December 31,<br>2020<br>(Audited) |
|--|--|-----------------------------------|
| <b>Total Liabilities (Brought Forward)</b>                       | <b>₱428,470,470</b>                      | ₱411,641,297                      |
| <b>Equity Attributable to Equity Holders of the Parent</b>       |  |                                   |
| Capital stock (Notes 16 and 23)                                  | 33,166,300                               | 33,166,300                        |
| Additional paid-in capital - net                                 | 38,022,913                               | 38,022,913                        |
| Cumulative translation adjustment                                | 1,993,712                                | 1,524,439                         |
| Net fair value changes of equity instruments at FVOCI (Note 8)   | 13,817,551                               | 13,460,669                        |
| Net fair value changes on cash flow hedges (Note 22)             | (1,524,065)                              | (1,769,030)                       |
| Remeasurement loss on defined benefit obligation                 | (626,751)                                | (587,796)                         |
| Retained earnings (Note 16):                                     |  |                                   |
| Appropriated   | 42,200,000                               | 42,200,000                        |
| Unappropriated   | 195,529,956                              | 186,251,267                       |
| Treasury stock (Notes 16 and 23)                                 | (2,984,695)                              | (2,984,695)                       |
| <b>Total Equity Attributable to Equity Holders of the Parent</b> | <b>319,594,921</b>                       | 309,284,067                       |
| <b>Non-controlling Interests</b>                                 | <b>1,348,420</b>                         | 1,433,561                         |
| <b>Total Equity</b>  | <b>320,943,341</b>                       | 310,717,628                       |
|  | <b>₱749,413,811</b>                      | ₱722,358,925                      |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*



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

|  | <b>Six-Month Periods Ended June 30</b> |             |
|--|--|-------------|
|  | <b>2021</b>                            | <b>2020</b> |
|  | (Unaudited)                            |             |
| <b>REVENUE</b>   |  |             |
| Rent (Note 17)   | <b>₱15,929,041</b>                     | ₱18,304,517 |
| Sales:   |  |             |
| Real estate  | <b>24,092,796</b>                      | 23,460,594  |
| Cinema and event ticket  | <b>10,474</b>                          | 607,652     |
| Others (Notes 17 and 18)                                       | <b>1,055,799</b>                       | 1,304,186   |
|  | <b>41,088,110</b>                      | 43,676,949  |
| <b>COSTS AND EXPENSES</b> (Note 19)                            | <b>25,015,856</b>                      | 27,328,209  |
| <b>INCOME FROM OPERATIONS</b>                                  | <b>16,072,254</b>                      | 16,348,740  |
| <b>OTHER INCOME (CHARGES)</b>                                  |  |             |
| Interest expense (Notes 13, 15, 17 and 20)                     | <b>(3,586,719)</b>                     | (3,712,067) |
| Interest and dividend income (Notes 5, 6, 8, 9, 12, 17 and 20) | <b>439,140</b>                         | 732,438     |
| Others - net (Notes 11, 14 and 15)                             | <b>1,508,201</b>                       | 380,172     |
|  | <b>(1,639,378)</b>                     | (2,599,457) |
| <b>INCOME BEFORE INCOME TAX</b>                                | <b>14,432,876</b>                      | 13,749,283  |
| <b>PROVISION FOR INCOME TAX</b> (Note 24)                      |  |             |
| Current  | <b>1,198,190</b>                       | 1,194,387   |
| Deferred   | <b>1,545,589</b>                       | 2,026,325   |
|  | <b>2,743,779</b>                       | 3,220,712   |
| <b>NET INCOME</b>  | <b>₱11,689,097</b>                     | ₱10,528,571 |
| <b>Attributable to</b>   |  |             |
| Equity holders of the Parent (Notes 16 and 23)                 | <b>₱11,644,915</b>                     | ₱10,432,887 |
| Non-controlling interests (Note 16)                            | <b>44,182</b>                          | 95,684      |
|  | <b>₱11,689,097</b>                     | ₱10,528,571 |
| Basic/Diluted earnings per share (Note 23)                     | <b>₱0.404</b>                          | ₱0.362      |
| Dividend per share (Note 16)                                   | <b>₱0.082</b>                          | ₱0.185      |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*



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

|  | <b>Six-Month Periods Ended June 30</b> |                    |
|--|--|--------------------|
|  | <b>2021</b>                            | <b>2020</b>        |
|  | <b>(Unaudited)</b>                     |                    |
| <b>NET INCOME</b>  | <b>₱11,689,097</b>                     | <b>₱10,528,571</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |  |                    |
| Items that will not be reclassified to profit or loss in subsequent periods:   |  |                    |
| Unrealized gain (loss) due to changes in fair value of fair value through other comprehensive income (FVOCI) securities (Note 8) | <b>356,882</b>                         | <b>(5,582,769)</b> |
| Remeasurement loss on defined benefit obligation   | <b>(39,228)</b>                        | <b>—</b>           |
|  | <b>317,654</b>                         | <b>(5,582,769)</b> |
| Items that may be reclassified to profit or loss in subsequent periods:  |  |                    |
| Net fair value changes on cash flow hedges   | <b>244,965</b>                         | <b>(547,973)</b>   |
| Cumulative translation adjustment  | <b>469,273</b>                         | <b>(402,658)</b>   |
|  | <b>1,031,892</b>                       | <b>(6,533,400)</b> |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱12,720,989</b>                     | <b>₱3,995,171</b>  |
| <b>Attributable to</b>   |  |                    |
| Equity holders of the Parent (Note 16)   | <b>₱12,677,080</b>                     | <b>₱3,899,487</b>  |
| Non-controlling interests (Note 16)  | <b>43,909</b>                          | <b>95,684</b>      |
|  | <b>₱12,720,989</b>                     | <b>₱3,995,171</b>  |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

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

|   | <b>Three-Month Periods Ended June 30</b> |                    |
|---|--|--------------------|
|   | <b>2021</b>                              | <b>2020</b>        |
|   | (Unaudited)                              |                    |
| <b>REVENUE</b>                          |  |                    |
| Rent                                    | ₱7,453,819                               | ₱5,526,785         |
| Real estate sales                       | 12,343,387                               | 12,166,629         |
| Others                                  | 491,462                                  | 196,066            |
|   | <b>20,288,668</b>                        | <b>17,889,480</b>  |
| <b>COSTS AND EXPENSES</b>               | <b>12,884,597</b>                        | <b>13,420,272</b>  |
| <b>INCOME FROM OPERATIONS</b>           | <b>7,404,071</b>                         | <b>4,469,208</b>   |
| <b>OTHER INCOME (CHARGES)</b>           |  |                    |
| Interest expense                        | (1,907,630)                              | (1,734,958)        |
| Interest and dividend income            | 198,958                                  | 324,255            |
| Others - net                            | 940,249                                  | 131,161            |
|   | <b>(768,423)</b>                         | <b>(1,279,542)</b> |
| <b>INCOME BEFORE INCOME TAX</b>         | <b>6,635,648</b>                         | <b>3,189,666</b>   |
| <b>PROVISION FOR INCOME TAX</b>         |  |                    |
| Current                                 | 571,831                                  | (680,349)          |
| Deferred                                | 895,579                                  | 1,738,307          |
|   | <b>1,467,410</b>                         | <b>1,057,958</b>   |
| <b>NET INCOME</b>                       | <b>₱5,168,238</b>                        | <b>₱2,131,708</b>  |
| <b>Attributable to</b>                  |  |                    |
| Equity holders of the Parent            | ₱5,168,327                               | ₱2,112,721         |
| Non-controlling interests               | (89)                                     | 18,987             |
|   | <b>₱5,168,238</b>                        | <b>₱2,131,708</b>  |
| <b>Basic/Diluted earnings per share</b> | <b>₱0.179</b>                            | <b>₱0.073</b>      |



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

|  | <b>Three-Month Periods Ended June 30</b> |                   |
|--|--|-------------------|
|  | <b>2021</b>                              | <b>2020</b>       |
|  | (Unaudited)                              |                   |
| <b>NET INCOME</b>  | <b>₱5,168,238</b>                        | <b>₱2,131,708</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |  |                   |
| Items that will not be reclassified to profit or loss in subsequent periods:                                     |  |                   |
| Unrealized gain due to changes in fair value of fair value through other comprehensive income (FVOCI) securities | 1,476,302                                | 1,894,926         |
| Remeasurement loss on defined benefit obligation   | (34,104)                                 | —                 |
|  | <b>1,442,198</b>                         | <b>1,894,926</b>  |
| Items that may be reclassified to profit or loss in subsequent periods:  |  |                   |
| Net fair value changes on cash flow hedges   | (487,981)                                | 46,876            |
| Cumulative translation adjustment  | 360,420                                  | (176,619)         |
|  | <b>1,314,637</b>                         | <b>1,765,183</b>  |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱6,482,875</b>                        | <b>₱3,896,891</b> |
| <b>Attributable to</b>   |  |                   |
| Equity holders of the Parent   | ₱6,483,237                               | ₱3,877,904        |
| Non-controlling interests  | (362)                                    | 18,987            |
|  | <b>₱6,482,875</b>                        | <b>₱3,896,891</b> |

*See accompanying Notes to Financial Statements.*

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND 2020**

(Amounts in Thousands)

|  | Equity Attributable to Equity Holders of the Parent (Notes 16 and 23) |  |   |   |   |   |                             |              |  |                              |                 |              |
|--|---|--|---|---|---|---|-----------------------------|--------------|--|------------------------------|-----------------|--------------|
|  | Capital Stock<br>(Notes 16 and 23)                                    | Additional<br>Paid-in<br>Capital - Net | Cumulative<br>Translation<br>Adjustment | Net fair value<br>changes of<br>equity<br>instruments at<br>FVOCI<br>(Note 8) | Net Fair Value<br>Changes on<br>Cash Flow<br>Hedges | Remeasurement<br>Loss on Defined<br>Benefit<br>Obligation | Retained Earnings (Note 16) |              | Treasury<br>Stock<br>(Notes 16 and 23) | Non-controlling<br>Interests | Total<br>Equity |              |
|  |   |  |   |   |   | Appropriated  | Unappropriated              |              | Total                                  |                              |                 |              |
| At December 31, 2020 (Audited)                       | ₱33,166,300   | ₱38,022,913                            | ₱1,524,439                              | ₱13,460,669   | (₱1,769,030)  | ₱42,200,000   | ₱186,251,267                | (₱2,984,695) | ₱309,284,067                           | ₱1,433,561                   | ₱310,717,628    |              |
| Net income for the period                            | -   | -                                      | -                                       | -   | -   | -   | 11,644,915                  | -            | 11,644,915                             | 44,182                       | 11,689,097      |              |
| Other comprehensive income (loss)                    | -   | -                                      | 469,273                                 | 356,882   | 244,965   | (38,955)  | -                           | -            | 1,032,165                              | (273)                        | 1,031,892       |              |
| Total comprehensive income (loss) for the period     | -   | -                                      | 469,273                                 | 356,882   | 244,965   | (38,955)  | -                           | -            | 12,677,080                             | 43,909                       | 12,720,989      |              |
| Cash dividends (Note 16)                             | -   | -                                      | -                                       | -   | -   | -   | (2,368,097)                 | -            | (2,368,097)                            | -                            | (2,368,097)     |              |
| Cash dividends received by a subsidiary              | -   | -                                      | -                                       | -   | -   | -   | 1,871                       | -            | 1,871                                  | -                            | 1,871           |              |
| Cash dividends received by non-controlling interests | -   | -                                      | -                                       | -   | -   | -   | -                           | -            | -                                      | (129,050)                    | (129,050)       |              |
| At June 30, 2021 (Unaudited)                         | ₱33,166,300   | ₱38,022,913                            | ₱1,993,712                              | ₱13,817,551   | (₱1,524,065)  | ₱42,200,000   | ₱195,529,956                | (₱2,984,695) | ₱319,594,921                           | ₱1,348,420                   | ₱320,943,341    |              |
| At December 31, 2019 (Audited)                       | ₱33,166,300   | ₱38,007,668                            | ₱1,344,274                              | ₱17,840,990   | (₱1,328,167)  | (₱913,390)  | ₱42,200,000                 | ₱173,583,191 | (₱2,984,695)                           | ₱300,916,171                 | ₱1,600,103      | ₱302,516,274 |
| Net income for the period                            | -   | -                                      | -                                       | -   | -   | -   | 10,432,887                  | -            | 10,432,887                             | 95,684                       | 10,528,571      |              |
| Other comprehensive loss                             | -   | -                                      | (402,658)                               | (5,582,769)   | (547,973)   | -   | -                           | -            | (6,533,400)                            | -                            | (6,533,400)     |              |
| Total comprehensive income (loss) for the period     | -   | -                                      | (402,658)                               | (5,582,769)   | (547,973)   | -   | -                           | -            | 3,899,487                              | 95,684                       | 3,995,171       |              |
| Cash dividends (Note 16)                             | -   | -                                      | -                                       | -   | -   | -   | (5,342,658)                 | -            | (5,342,658)                            | -                            | (5,342,658)     |              |
| Cash dividends received by a subsidiary              | -   | -                                      | -                                       | -   | -   | -   | 4,222                       | -            | 4,222                                  | -                            | 4,222           |              |
| At June 30, 2020 (Unaudited)                         | ₱33,166,300   | ₱38,007,668                            | ₱941,616                                | ₱12,258,221   | (₱1,876,140)  | (₱913,390)  | ₱42,200,000                 | ₱178,677,642 | (₱2,984,695)                           | ₱299,477,222                 | ₱1,695,787      | ₱301,173,009 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.



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

|  | <b>Six-Month Periods Ended June 30</b> |              |
|--|--|--------------|
|  | <b>2021</b>                            | <b>2020</b>  |
|  | (Unaudited)                            |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |              |
| Income before income tax   | <b>₱14,432,876</b>                     | ₱13,749,283  |
| Adjustments for:   |  |              |
| Depreciation and amortization (Notes 10, 12 and 19)                                    | <b>5,272,189</b>                       | 5,485,671    |
| Interest expense (Notes 13, 15, 17 and 20)   | <b>3,586,719</b>                       | 3,712,067    |
| Equity in net earnings of associates and joint ventures (Note 11)                      | <b>(711,164)</b>                       | (425,036)    |
| Interest and dividend income (Notes 5, 6, 8, 9, 12, 17 and 20)                         | <b>(439,140)</b>                       | (732,438)    |
| Loss (gain) on unrealized foreign exchange and fair value changes on derivatives – net | <b>(223,524)</b>                       | 225,023      |
| Operating income before working capital changes  | <b>21,917,956</b>                      | 22,014,570   |
| Decrease (increase) in:  |  |              |
| Receivables and contract assets  | <b>(6,402,415)</b>                     | (14,114,147) |
| Real estate inventories  | <b>(1,038,316)</b>                     | 2,890,220    |
| Prepaid expenses and other current assets  | <b>(1,475,004)</b>                     | (1,503,894)  |
| Increase (decrease) in:  |  |              |
| Accounts payable and other current liabilities   | <b>(152,621)</b>                       | 1,996,159    |
| Tenants' and customers' deposits   | <b>176,562</b>                         | 649,310      |
| Cash generated from operations   | <b>13,026,162</b>                      | 11,932,218   |
| Income tax paid  | <b>(1,578,538)</b>                     | (2,492,738)  |
| Cash provided by operating activities  | <b>11,447,624</b>                      | 9,439,480    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |              |
| Interest received  | <b>286,587</b>                         | 639,352      |
| Dividends received   | <b>96,409</b>                          | 106,585      |
| Additions to investment properties (Note 10)   | <b>(22,508,532)</b>                    | (17,669,755) |
| Increase in other noncurrent assets  | <b>(535,732)</b>                       | (7,406,923)  |
| Net cash used in investing activities  | <b>(22,661,268)</b>                    | (24,330,741) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |  |              |
| Availments of bank loans and long-term debt (Notes 13 and 15)                          | <b>43,553,402</b>                      | 40,050,412   |
| Payments of:   |  |              |
| Long-term debt (Note 15)   | <b>(19,441,020)</b>                    | (21,216,068) |
| Bank loans (Note 13)   | <b>(10,400,000)</b>                    | (15,100,000) |
| Interest (Notes 13, 15, 17 and 20)   | <b>(3,623,154)</b>                     | (3,414,527)  |
| Dividends (Note 16)  | <b>(2,366,226)</b>                     | –            |
| Matured derivatives (Note 22)  | <b>(281,106)</b>                       | –            |
| Lease liabilities (Note 14)  | <b>(24,711)</b>                        | (39,252)     |
| Net cash provided by financing activities  | <b>7,417,185</b>                       | 280,565      |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                    | <b>(25,823)</b>                        | (5,047)      |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                       | <b>(3,822,282)</b>                     | (14,615,743) |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                | <b>30,661,614</b>                      | 34,599,959   |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                      | <b>₱26,839,332</b>                     | ₱19,984,216  |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements*



# SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 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 June 30, 2021, 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 interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on August 31, 2021.

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### 2. Basis of Preparation

#### Basis of Preparation

The accompanying interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and equity instruments at fair value through other comprehensive income (FVOCI) which have been measured at fair value.

The interim condensed consolidated financial statements have been prepared under the going concern assumption. The Company believes that its business would remain relevant despite the challenges posed by the Coronavirus 2019 (COVID-19) pandemic. While the pandemic may adversely impact the short-term business results, long-term prospects remain attractive. The Company maintains a conservative balance sheet and is confident it would be able to navigate through these challenges and take opportunities as they arise.



### Statement of Compliance

The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*, as modified by the application of the reporting reliefs issued and approved by SEC under Memorandum Circular (MC) No. 34-2020 in response to the COVID-19 pandemic in “Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A No. 2018-12-D, PFRS 15 Implementation Issues Affecting the Real Estate Industry” and application of “IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost)”.

On July 8, 2021, to assist real estate companies to finally adopt the above mentioned PIC Q&A and IFRIC pronouncement and enable them to fully comply with PFRS 15 and revert to full PFRS, the SEC issued SEC MC No. 8, series of 2021 amending the transition provision of the above PIC Q&A and IFRIC pronouncement, which would provide real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach when they apply the provisions of the above PIC Q&A and IFRIC pronouncement.

The details of the impact of adoption of the above financial reporting reliefs are discussed in the Note 3 to the interim condensed consolidated financial statements.

The interim condensed 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.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company’s annual audited consolidated financial statements as at December 31, 2020.

These interim condensed consolidated financial statements have been prepared for inclusion in the prospectus to be prepared by the Company for its planned offering of bonds.

### Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries. As at June 30, 2021, there were no significant changes in the composition of the Company and in the Parent Company’s ownership interests in its subsidiaries.

### Significant Accounting Judgments, Estimates and Assumptions

The preparation of the interim condensed 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. Details of judgments, estimates and assumptions are disclosed in relevant notes of the interim condensed consolidated financial statements.

Except as otherwise disclosed, there were no significant changes in the significant accounting judgments, estimates and assumptions used by the Company for the six-month period ended June 30, 2021.



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### 3. Summary of Significant Accounting and Financial Reporting Policies

#### Changes in Accounting Policies and Disclosures

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2020, except for the following amendments which the Company has adopted starting January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*, provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Company shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply prospectively, however, the Company is not required to restate prior periods.

These amendments had no significant impact on the interim condensed consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

- 2021 Amendments to PFRS 16, *Leases, COVID -19 Related Rent Concessions* is an update to the amendment to PFRS 16, which provides relief to lessees from applying PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of COVID-19 pandemic for any reduction in lease payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021, earlier application is permitted. The Company early adopted the 2021 amendment to PFRS 16 beginning January 1, 2021.

*Company as Lessor.* Throughout the government-imposed community quarantine, the Company waived rentals and other charges amounting to ₱10,253 million and ₱10,670 million for the six-month periods ended June 30, 2021 and 2020, respectively, which significantly reduced rental income. Such rental waivers are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.



- Adoption of the Provisions of PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02), PIC Q&A No. 2018-12-H, and PIC Q&A 2018-14 (as amended by PIC Q&A 2020-05) provide guidance on some PFRS 15 implementation issues affecting the real estate industry. The Company adopted these PIC Q&As starting January 1, 2021 using modified retrospective approach. The Company's accounting policy are aligned with PFRS. The adoption of these PIC Q&As do not have significant impact to the Company's financial statements.

#### Future Changes in Accounting Policies

Pronouncements that were issued but not yet effective as at June 30, 2021 are the same as those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2020, except for the pronouncements 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 these become effective.

#### *Effective beginning on or before January 1, 2023*

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies*
- Amendments to PAS 8, *Definition of Accounting Estimates*

#### *Deferred Effectivity – Effective beginning or or before January 1, 2024*

- Deferral of PIC Q&A 2018-12-D, *PFRS 15 Implementing Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-04)*. On October 25, 2018 and December 15, 2020, the Philippine SEC issued SEC MC No. 14-2018 and SEC MC No. 34-2020 providing relief to the real estate industry by deferring the application of “assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)” until December 31, 2020 and 2023, respectively.

The Company availed of the SEC relief to defer the above specific provisions of PIC Q&A No. 2018-12-D. The adoption of this guidance would have an impact to interest income, interest expense, revenue from real estate sales, contract assets, provision for deferred income tax, deferred tax asset or liability and the opening balance of retained earnings on the year of adoption. The Company is currently assessing if the mismatch between the percentage of completion (POC) and right to an amount of consideration constitutes a significant financing component.

- IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost). On February 21, 2020 and December 15, 2020, the Philippine SEC issued SEC MC No. 4-2020 and SEC MC No. 34-2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020 and 2023, respectively. The Company opted to avail of the relief as provided by the SEC. The adoption of the IFRIC Agenda Decision is not expected to have significant impact on the consolidated financial statements.

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#### 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 interim condensed 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 interim condensed consolidated financial statements, which is in accordance with PFRS.

#### Inter-segment Transactions

Inter-segment transactions are eliminated in the interim condensed consolidated financial statements.

#### Business Segment Data

| Six-month period ended June 30, 2021 (Unaudited) |             |             |            |                                     |                              |                          |
|--|-------------|-------------|------------|-------------------------------------|------------------------------|--------------------------|
|  | Mall        | Residential | Commercial | Hotels and<br>Convention<br>Centers | Eliminations/<br>Adjustments | Consolidated<br>Balances |
| <i>(In Thousands)</i>                            |             |             |            |                                     |                              |                          |
| Revenue:   |             |             |            |                                     |                              |                          |
| External customers                               | ₱13,620,471 | ₱24,459,531 | ₱2,459,481 | ₱548,627                            | ₱-                           | ₱41,088,110              |
| Inter-segment                                    | 42,762      | 1,181       | 42,347     | 2,293                               | (88,583)                     | -                        |
|  | ₱13,663,233 | ₱24,460,712 | ₱2,501,828 | ₱550,920                            | (88,583)                     | ₱41,088,110              |
| Segment results:                                 |             |             |            |                                     |                              |                          |
| Income (loss) before income tax                  | ₱4,175,686  | ₱9,094,186  | ₱1,934,073 | (₱599,524)                          | (₱171,545)                   | ₱14,432,876              |
| Provision for income tax                         | (307,068)   | (1,936,675) | (500,036)  | -                                   | -                            | (2,743,779)              |
| Net income (loss)                                | ₱3,868,618  | ₱7,157,511  | ₱1,434,037 | (₱599,524)                          | (₱171,545)                   | ₱11,689,097              |
| Net income (loss) attributable to:               |             |             |            |                                     |                              |                          |
| Equity holders of the Parent                     | ₱3,825,892  | ₱7,156,055  | ₱1,434,037 | (₱599,524)                          | (₱171,545)                   | ₱11,644,915              |
| Non-controlling interests                        | 42,726      | 1,456       | -          | -                                   | -                            | 44,182                   |
| Other information:                               |             |             |            |                                     |                              |                          |
| Capital expenditures                             | ₱13,647,407 | ₱19,439,074 | ₱1,488,861 | ₱716,404                            | ₱-                           | ₱35,291,746              |
| Depreciation and amortization                    | 4,530,036   | 59,813      | 377,102    | 305,238                             | -                            | 5,272,189                |
| Six-month period ended June 30, 2020 (Unaudited) |             |             |            |                                     |                              |                          |
|  | Mall        | Residential | Commercial | Hotels and<br>Convention<br>Centers | Eliminations/<br>Adjustments | Consolidated<br>Balances |
| <i>(In Thousands)</i>                            |             |             |            |                                     |                              |                          |
| Revenue:   |             |             |            |                                     |                              |                          |
| External customers                               | ₱16,386,214 | ₱23,701,857 | ₱2,501,145 | ₱1,087,733                          | ₱-                           | ₱43,676,949              |
| Inter-segment                                    | 30,668      | 6,111       | 37,227     | 1,253                               | (75,259)                     | -                        |
|  | ₱16,416,882 | ₱23,707,968 | ₱2,538,372 | ₱1,088,986                          | (₱75,259)                    | ₱43,676,949              |
| Segment results:                                 |             |             |            |                                     |                              |                          |
| Income (loss) before income tax                  | ₱4,052,016  | ₱8,080,771  | ₱2,164,016 | (₱384,711)                          | (₱162,809)                   | ₱13,749,283              |
| Provision for income tax                         | (974,849)   | (1,826,071) | (419,792)  | -                                   | -                            | (3,220,712)              |
| Net income (loss)                                | ₱3,077,167  | ₱6,254,700  | ₱1,744,224 | (₱384,711)                          | (₱162,809)                   | ₱10,528,571              |



| Six-month period ended June 30, 2020 (Unaudited) |             |             |            |                                     |                              |                          |
|--|-------------|-------------|------------|-------------------------------------|------------------------------|--------------------------|
|  | Mall        | Residential | Commercial | Hotels and<br>Convention<br>Centers | Eliminations/<br>Adjustments | Consolidated<br>Balances |
| Net income (loss) attributable to:               |             |             |            |                                     |                              |                          |
| Equity holders of the Parent                     | ₱2,974,846  | ₱6,261,337  | ₱1,744,224 | (₱384,711)                          | (₱162,809)                   | ₱10,432,887              |
| Non-controlling interests                        | 102,321     | (6,637)     | –          | –                                   | –                            | 95,684                   |
| Other information:                               |             |             |            |                                     |                              |                          |
| Capital expenditures                             | ₱12,823,016 | ₱13,209,860 | ₱3,598,157 | ₱414,794                            | ₱–                           | ₱30,045,827              |
| Depreciation and amortization                    | 4,758,968   | 78,329      | 325,519    | 322,855                             | –                            | 5,485,671                |

| June 30, 2021 (Unaudited) |              |              |             |                                     |              |                          |
|---------------------------|--------------|--------------|-------------|-------------------------------------|--------------|--------------------------|
|                           | Mall         | Residential  | Commercial  | Hotels and<br>Convention<br>Centers | Eliminations | Consolidated<br>Balances |
| <i>(In Thousands)</i>     |              |              |             |                                     |              |                          |
| Segment assets            | ₱403,417,319 | ₱271,416,581 | ₱62,092,993 | ₱14,143,004                         | (₱1,656,086) | ₱749,413,811             |
| Segment liabilities       | ₱267,317,514 | ₱156,259,034 | ₱6,000,432  | ₱549,576                            | (₱1,656,086) | ₱428,470,470             |

| December 31, 2020 (Audited) |              |              |             |                                     |              |                          |
|-----------------------------|--------------|--------------|-------------|-------------------------------------|--------------|--------------------------|
|                             | Mall         | Residential  | Commercial  | Hotels and<br>Convention<br>Centers | Eliminations | Consolidated<br>Balances |
| <i>(In Thousands)</i>       |              |              |             |                                     |              |                          |
| Segment assets              | ₱393,412,575 | ₱254,869,649 | ₱61,567,161 | ₱14,067,315                         | (₱1,557,775) | ₱722,358,925             |
| Segment liabilities         | ₱258,218,748 | ₱147,833,429 | ₱6,230,590  | ₱916,305                            | (₱1,557,775) | ₱411,641,297             |

For the six-month periods ended June 30, 2021 and 2020, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers. The Company disaggregates its revenue information in the same manner as it reports its segment information.

#### Seasonality

Except for the significant impact of the COVID-19 pandemic to the Company's operations starting March 2020, there were no other trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

## 5. Cash and Cash Equivalents

Cash and cash equivalents comprised the following:

|   | June 30,<br>2021<br>(Unaudited) | December 31,<br>2020<br>(Audited) |
|---|---------------------------------|-----------------------------------|
| <i>(In Thousands)</i>                   |                                 |                                   |
| Cash on hand and in banks (see Note 17) | ₱13,840,326                     | ₱12,484,610                       |
| Temporary investments (see Note 17)     | 12,999,006                      | 18,177,004                        |
|   | <b>₱26,839,332</b>              | <b>₱30,661,614</b>                |

Interest income earned from cash in banks and temporary investments amounted to ₱288 million and ₱568 million for the six-month periods ended June 30, 2021 and 2020, respectively (see Note 20).



## 6. Receivables and Contract Assets

This account consists of:

|  | <b>June 30,<br/>2021<br/>(Unaudited)</b> | December 31,<br>2020<br>(Audited) |
|--|--|-----------------------------------|
| <i>(In Thousands)</i>  |  |                                   |
| Trade (billed and unbilled):   |  |                                   |
| Sale of real estate*   | <b>₱103,781,879</b>                      | ₱97,140,164                       |
| Rent:  |  |                                   |
| Third parties  | <b>4,745,644</b>                         | 5,161,293                         |
| Related parties (see Note 17)  | <b>2,058,858</b>                         | 2,249,505                         |
| Others   | <b>5,592</b>                             | 28,429                            |
| Accrued interest (see Note 17)   | <b>185,370</b>                           | 129,226                           |
| Nontrade   | <b>120,551</b>                           | 50,548                            |
| Others (see Note 17)   | <b>2,401,430</b>                         | 2,068,588                         |
|  | <b>113,299,324</b>                       | 106,827,753                       |
| Less allowance for expected credit loss (ECLs)                                   | <b>1,057,614</b>                         | 1,066,130                         |
|  | <b>112,241,710</b>                       | 105,761,623                       |
| Less noncurrent portion of receivables from sale<br>of real estate (see Note 12) | <b>54,082,430</b>                        | 46,816,693                        |
|  | <b>₱58,159,280</b>                       | ₱58,944,930                       |

\* Includes unbilled revenue from sale of real estate amounting to ₱90,626 million and ₱86,631 million as at June 30, 2021 and December 31, 2020, respectively.

Interest income earned from receivables amounted to ₱39 million and ₱28 million for the six-month periods ended June 30, 2021 and 2020, respectively (see Note 20).

The Company assigned receivables from sale of real estate (billed and unbilled) on a without recourse basis to local banks amounting to ₱359 million and ₱5,911 million for period ended June 30, 2021 and 2020, respectively (see Note 17).

The Company also has assigned billed and unbilled receivables from real estate on a with recourse basis to local banks with outstanding balance of ₱396 million and ₱1,809 million as at June 30, 2021 and December 31, 2020, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates of 4.50% and 4.25% to 4.50% as at June 30, 2021 and December 31, 2020, respectively. The fair value of the assigned receivables and liability from assigned receivables approximates their costs (see Note 14).

The movements in the allowance for ECLs related to receivables are as follows:

|                               | <b>June 30,<br/>2021<br/>(Six Months)<br/>(Unaudited)</b> | December 31,<br>2020<br>(One Year)<br>(Audited) |
|-------------------------------|---|---|
| <i>(In Thousands)</i>         |   |   |
| At beginning of the period    | <b>₱1,066,130</b>   | ₱1,053,549                                      |
| Provision - net (see Note 19) | <b>(8,516)</b>  | 12,581  |
| At end of the period          | <b>₱1,057,614</b>   | ₱1,066,130                                      |



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

## 7. Real Estate Inventories

The movements in this account are as follows:

|   | Land and<br>Development | Condominium<br>Units for Sale | Residential<br>Units and<br>Subdivision Lots | Total              |
|---|-------------------------|-------------------------------|--|--------------------|
| <i>(In Thousands)</i>   |                         |                               |  |                    |
| Balance as at December 31, 2019                               | ₱37,930,932             | ₱5,880,355                    | ₱134,822                                     | ₱43,946,109        |
| Development cost incurred                                     | 18,139,127              | –                             | –  | 18,139,127         |
| Cost of real estate sold                                      | (18,447,010)            | (2,057,496)                   | (73,900)                                     | (20,578,406)       |
| Transfers   | (4,850,263)             | 4,849,029                     | 1,234  | –                  |
| Reclassifications from investment properties<br>(see Note 10) | 2,031,711               | –                             | –  | 2,031,711          |
| Translation adjustment and others                             | 123,820                 | –                             | 29,516                                       | 153,336            |
| Balance as at December 31, 2020                               | 34,928,317              | 8,671,888                     | 91,672                                       | 43,691,877         |
| Development cost incurred                                     | 11,353,318              | –                             | –  | 11,353,318         |
| Cost of real estate sold (see Note 19)                        | (9,551,045)             | (824,781)                     | (17,928)                                     | (10,393,754)       |
| Transfers   | (6,164,607)             | 6,164,512                     | 95   | –                  |
| Reclassifications from investment properties<br>(see Note 10) | 2,129,477               | –                             | –  | 2,129,477          |
| Translation adjustment and others                             | 110,633                 | 23,894                        | 30,118                                       | 164,645            |
| <b>Balance as at June 30, 2021</b>                            | <b>₱32,806,093</b>      | <b>₱14,035,513</b>            | <b>₱103,957</b>                              | <b>₱46,945,563</b> |

Land and development which pertains to the Company's on-going residential projects and condominium and residential units for sale which pertain to the completed projects are stated at cost as at June 30, 2021 and December 31, 2020.

Contract fulfillment assets, included under land and development, mainly pertain to unamortized portion of land cost totaling ₱2,214 million and ₱1,745 million as at June 30, 2021 and December 31, 2020, respectively.

## 8. Equity Instruments at FVOCI

This account consists of investments in:

|                         | <b>June 30,<br/>2021<br/>(Unaudited)</b> | December 31,<br>2020<br>(Audited) |
|-------------------------|--|-----------------------------------|
| <i>(In Thousands)</i>   |  |                                   |
| Shares of stock:        |  |                                   |
| Listed (see Note 17)    | <b>₱17,053,216</b>                       | ₱16,696,333                       |
| Unlisted                | <b>3,381</b>                             | 3,381                             |
|                         | <b>17,056,597</b>                        | 16,699,714                        |
| Less noncurrent portion | <b>16,493,970</b>                        | 16,131,568                        |
|                         | <b>₱562,627</b>                          | ₱568,146                          |



Dividend income from investments at FVOCI amounted to ₱96 million and ₱107 million for the six-month periods ended June 30, 2021 and 2020, respectively.

Unrealized gain on changes in fair value amounting to ₱357 million for the six-month period ended June 30, 2021 and unrealized loss due to changes in fair value amounting to ₱5,583 million for the six-month period ended June 30, 2020 were included under other comprehensive income.

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## 9. Prepaid Expenses and Other Current Assets

This account consists of:

|   | <b>June 30,<br/>2021<br/>(Unaudited)</b> | December 31,<br>2020<br>(Audited) |
|---|--|-----------------------------------|
|   | <i>(In Thousands)</i>                    |                                   |
| Input and creditable withholding taxes  | <b>₱10,331,776</b>                       | ₱9,655,119                        |
| Advances and deposits                   | <b>9,248,261</b>                         | 9,052,663                         |
| Prepaid taxes and other prepayments     | <b>4,319,446</b>                         | 3,839,114                         |
| Supplies and inventories                | <b>394,676</b>                           | 407,203                           |
| Cash in escrow and others (see Note 17) | <b>429,881</b>                           | 251,563                           |
|   | <b>₱24,724,040</b>                       | ₱23,205,662                       |



## 10. Investment Properties

The movements in this account are as follows:

|  | Land Held for<br>Future<br>Development | Land and<br>Improvements | Buildings and<br>Improvements | Building<br>Equipment,<br>Furniture<br>and Others | Right-of-use<br>Assets<br>(ROUA) - Land | Construction<br>in Progress | Total              |
|--|--|--------------------------|-------------------------------|---|---|-----------------------------|--------------------|
| <i>(In Thousands)</i>  |  |                          |                               |   |   |                             |                    |
| <b>Cost</b>  |  |                          |                               |   |   |                             |                    |
| 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       |
| Additions  | 6,585,159                              | 3,535,214                | 2,045,713                     | 1,478,530   | 3,276,229                               | 24,409,153                  | 41,329,998         |
| Reclassifications to real estate inventories<br>(see Note 7) | (1,829,378)                            | (628,379)                | 7,517,657                     | 862,027   | –                                       | (7,953,638)                 | (2,031,711)        |
| Translation adjustment                                       | –                                      | 15,655                   | 469,724                       | 37,418  | 111,741                                 | 42,657                      | 677,195            |
| Disposals  | (4,113,632)                            | (44,242)                 | (80)                          | (121,219)   | –                                       | –                           | (4,279,173)        |
| Balance as at December 31, 2020                              | 71,484,914                             | 73,125,562               | 247,649,748                   | 44,844,780  | 25,591,440                              | 70,277,889                  | 532,974,333        |
| Additions  | 8,032,775                              | 2,656,289                | 212,370                       | 571,934   | 645,231                                 | 11,755,655                  | 23,874,254         |
| Reclassifications to real estate inventories<br>(see Note 7) | (2,134,376)                            | (14,300)                 | 4,126,592                     | 516,209   | –                                       | (4,623,602)                 | (2,129,477)        |
| Translation adjustment                                       | –                                      | 44,340                   | 1,090,562                     | 85,705  | 344,254                                 | 180,979                     | 1,745,840          |
| Disposals  | –                                      | (14,130)                 | (222)                         | (60,114)  | –                                       | –                           | (74,466)           |
| Balance as at June 30, 2021                                  | ₱77,383,313                            | ₱75,797,761              | ₱253,079,050                  | ₱45,958,514                                       | ₱26,580,925                             | ₱77,590,921                 | ₱556,390,484       |
| <b>Accumulated Depreciation and Amortization</b>             |  |                          |                               |   |   |                             |                    |
| Balance as at December 31, 2019                              | ₱–                                     | ₱2,270,162               | ₱56,648,135                   | ₱27,175,335                                       | ₱544,814                                | ₱–                          | ₱86,638,446        |
| Depreciation and amortization                                | –                                      | 236,598                  | 7,024,320                     | 2,349,180   | 546,328                                 | –                           | 10,156,426         |
| Translation adjustment                                       | –                                      | 12,180                   | 111,470                       | 25,372  | 5,042                                   | –                           | 154,064            |
| Disposals  | –                                      | (26,301)                 | (7)                           | (107,376)   | –                                       | –                           | (133,684)          |
| Balance as at December 31, 2020                              | –                                      | 2,492,639                | 63,783,918                    | 29,442,511  | 1,096,184                               | –                           | 96,815,252         |
| Depreciation and amortization (see Note 19)                  | –                                      | 132,111                  | 3,486,144                     | 1,291,245   | 283,022                                 | –                           | 5,192,522          |
| Translation adjustment                                       | –                                      | 25,155                   | 235,784                       | 52,268  | 8,693                                   | –                           | 321,900            |
| Disposals  | –                                      | (2,469)                  | –                             | (56,746)  | –                                       | –                           | (59,215)           |
| Balance as at June 30, 2021                                  | ₱–                                     | ₱2,647,436               | ₱67,505,846                   | ₱30,729,278                                       | ₱1,387,899                              | ₱–                          | ₱102,270,459       |
| <b>Net Book Value</b>  |  |                          |                               |   |   |                             |                    |
| As at December 31, 2020                                      | ₱71,484,914                            | ₱70,632,923              | ₱183,865,830                  | ₱15,402,269                                       | ₱24,495,256                             | ₱70,277,889                 | ₱436,159,081       |
| <b>As at June 30, 2021</b>                                   | <b>77,383,313</b>                      | <b>73,150,325</b>        | <b>185,573,204</b>            | <b>15,229,236</b>                                 | <b>25,193,026</b>                       | <b>77,590,921</b>           | <b>454,120,025</b> |



Portions of investment properties located in China with total carrying value of ₱1,789 million as at June 30, 2021 are mortgaged as collaterals to secure domestic short term and long term borrowings (see Notes 13 and 15).

Consolidated rent income from investment properties amounted to ₱15,929 million and ₱18,305 million for the six-month periods ended June 30, 2021 and 2020, respectively. Consolidated costs and expenses from investment properties amounted to ₱11,248 million and ₱13,361 million for the six-month periods ended June 30, 2021 and 2020, respectively.

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱77,591 million and ₱70,278 million as at June 30, 2021 and December 31, 2020, respectively.

Construction contracts with various contractors related to the construction of the on-going projects amounted to ₱70,880 million and ₱65,458 million as at June 30, 2021 and December 31, 2020, 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 ₱21,334 million and ₱22,641 million as at June 30, 2021 and December 31, 2020, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,901 million and ₱3,540 million and capitalization rates used range from 2.65% to 5.01% and from 2.35% to 4.70%, for the six-month period ended June 30, 2021 and for the year ended December 31, 2020, respectively.

The most recent fair value of investment properties amounted to ₱1,305,810 million as of September 30, 2018 as determined by an independent appraiser who holds a recognized and relevant professional qualification. Management believes that the carrying values of additions to investment properties subsequent to the most recent valuation date would approximate their fair values. The Company's management believes that there is no impairment loss on the Company's investment properties and there is no significant change in the fair value of the investment properties from the most recent valuation. 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 significant assumptions used in the valuation are discount rates and capitalization rates of 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 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.



## 11. Investments in Associates and Joint Ventures

The ownership interests in associate and joint ventures accounted for under the equity method mainly consist of the following:

| Company   | Country of Incorporation   | Percentage of Ownership |                   |
|---|----------------------------|-------------------------|-------------------|
|   |                            | June 30, 2021           | December 31, 2020 |
| <b>Associates</b>   |                            |                         |                   |
| Feihua Real Estate (Chongqing) Company Ltd. (FHREC)           | People's Republic of China | 50.00                   | 50.00             |
| Ortigas Land Corporation (OLC) (formerly OCLP Holdings, Inc.) | Philippines                | 39.96                   | 39.96             |
| <b>Joint Ventures</b>   |                            |                         |                   |
| Winsome Development Corporation*                              | Philippines                | 51.00                   | 51.00             |
| Willin Sales, Inc.*   | - do -                     | 51.00                   | 51.00             |
| Willimson, Inc. *   | - do -                     | 51.00                   | 51.00             |
| Waltermart Ventures, Inc. *                                   | - do -                     | 51.00                   | 51.00             |
| WM Development, Inc. *  | - do -                     | 51.00                   | 51.00             |
| WM Shopping Center Management Inc.*                           | - do -                     | 51.00                   | 51.00             |
| Metro Rapid Transit Service Inc.                              | - do -                     | 51.00                   | 51.00             |
| ST 6747 Resources Corporation (STRC)                          | - do -                     | 50.00                   | 50.00             |

\*collectively, Waltermart

The movements in this account are as follows:

|                                    | Associates         | Joint Ventures    | Total              |
|------------------------------------|--------------------|-------------------|--------------------|
| <i>(In Thousands)</i>              |                    |                   |                    |
| Balance as at December 31, 2019    | ₱18,914,405        | ₱8,299,993        | ₱27,214,398        |
| Equity in net earnings             | 323,473            | 371,000           | 694,473            |
| Dividends                          | (127,450)          | (61,200)          | (188,650)          |
| Translation                        | 15,018             | -                 | 15,018             |
| Balance as at December 31, 2020    | 19,125,446         | 8,609,793         | 27,735,239         |
| Equity in net earnings             | 499,862            | 211,302           | 711,164            |
| Translation                        | 34,280             | -                 | 34,280             |
| <b>Balance as at June 30, 2021</b> | <b>₱19,659,588</b> | <b>₱8,821,095</b> | <b>₱28,480,683</b> |

As at June 30, 2021, OLC's total assets, total liabilities and total equity amounted to ₱43,035 million, ₱31,799 million and ₱11,236 million, respectively, and the carrying value of investment in OLC amounted to ₱18,335 million, which consists of its proportionate share in the net assets of OLC and fair value adjustments. The share in profit and total comprehensive income amounted to ₱500 million and ₱223 million for the six-month periods ended June 30, 2021 and 2020, respectively.

The carrying value of investment in FHREC amounted to ₱1,325 million and ₱1,291 million as at June 30, 2021 and December 31, 2020, respectively, with cumulative equity in net earnings amounting to ₱1,036 million and ₱1,009 million as at June 30, 2021 and December 31, 2020, respectively.

The carrying values of investments in Waltermart amounted to ₱7,039 million and ₱6,885 million as at June 30, 2021 and December 31, 2020, respectively. The aggregate share in profit and total comprehensive income, amounted to ₱154 million and ₱136 million for the six-month periods ended June 30, 2021 and 2020, respectively.



The carrying value of investment in STRC amounted to ₱1,771 million and ₱1,678 million as at June 30, 2021 and December 31, 2020, respectively. The aggregate share in profit and total comprehensive income amounted to ₱93 million and ₱71 million for the six-month period ended June 30, 2021 and 2020, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at June 30, 2021 and December 31, 2020.

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## 12. Other Noncurrent Assets - net

This account consists of:

|   | <b>June 30,<br/>2021</b> | December 31,<br>2020 |
|---|--------------------------|----------------------|
|   | <b>(Unaudited)</b>       | (Audited)            |
|   | <i>(In Thousands)</i>    |                      |
| Receivables from sale of real estate - net of current portion (see Note 6)*   | <b>₱54,082,430</b>       | ₱46,816,693          |
| Bonds and deposits  | <b>31,894,954</b>        | 32,433,867           |
| Time deposits (see Notes 17 and 22)   | <b>2,102,747</b>         | 1,356,442            |
| Property and equipment - net of accumulated depreciation of ₱2,179 million and ₱2,103 million, respectively (see Note 19) | <b>1,291,706</b>         | 1,311,208            |
| Deferred input tax  | <b>1,268,075</b>         | 1,111,000            |
| Others  | <b>1,523,686</b>         | 1,397,305            |
|   | <b>₱92,163,598</b>       | ₱84,426,515          |

\*Pertains to noncurrent portion of unbilled revenue from sale of real estate (see Note 6).

Interest income earned from time deposits amounted to ₱16 million and ₱29 million for the six-month periods ended June 30, 2021 and 2020, respectively (see Note 20).

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## 13. Loans Payable

This account consists of Philippine peso and China yuan renminbi denominated loans amounting to ₱4,443 million and ₱10,900 million as at June 30, 2021 and December 31, 2020, with due dates of less than one year. These loans bear interest rates of 2.65% to 3.75% in 2021 and 3.15 % to 4.00% in 2020.

Interest expense incurred from loans payable amounted to ₱96 million and ₱101 million for the six-month periods ended June 30, 2021 and 2020, respectively (see Note 20).



#### 14. Accounts Payable and Other Current Liabilities

This account consists of:

|   | <b>June 30,<br/>2021</b> | December 31,<br>2020 |
|---|--------------------------|----------------------|
|   | <b>(Unaudited)</b>       | (Audited)            |
| <i>(In Thousands)</i>                                       |                          |                      |
| Trade:  |                          |                      |
| Third parties   | <b>₱35,509,562</b>       | ₱37,994,767          |
| Related parties (see Note 17)                               | <b>207,889</b>           | 490,247              |
| Tenants' and customers' deposits*                           | <b>37,007,406</b>        | 37,540,373           |
| Accrued operating expenses:                                 |                          |                      |
| Third parties   | <b>12,338,331</b>        | 9,863,058            |
| Related parties (see Note 17)                               | <b>407,443</b>           | 407,443              |
| Lease liabilities   | <b>11,694,478</b>        | 11,076,316           |
| Liability for purchased land                                | <b>9,959,122</b>         | 8,608,649            |
| Deferred output VAT   | <b>9,369,049</b>         | 8,228,236            |
| Accrued interest (see Note 17)                              | <b>2,313,216</b>         | 2,237,044            |
| Payable to government agencies                              | <b>1,555,494</b>         | 1,268,136            |
| Nontrade  | <b>404,154</b>           | 400,110              |
| Liability from assigned receivables and others (see Note 6) | <b>3,116,120</b>         | 4,447,540            |
|   | <b>123,882,264</b>       | 122,561,919          |
| Less noncurrent portion                                     | <b>44,263,280</b>        | 41,527,934           |
|   | <b>₱79,618,984</b>       | ₱81,033,985          |

\*Includes unearned revenue from sale of real estate amounting to ₱5,633 million and ₱7,615 million as at June 30, 2021 and December 31, 2020, respectively.

Lease liabilities included in "Other noncurrent liabilities" amounted to ₱11,585 million and ₱11,009 million as at June 30, 2021 and December 31, 2020, respectively. Interest on lease liabilities included under "Others - net" in the interim consolidated statements of income amounted to ₱171 million and ₱162 million for the six-month periods ended June 30, 2021 and 2020, respectively.

The undiscounted payments of lease liabilities are scheduled as follows:

|                             | <b>June 30,<br/>2021</b> | December 31,<br>2020 |
|-----------------------------|--------------------------|----------------------|
|                             | <b>(Unaudited)</b>       | (Audited)            |
| <i>(In Thousands)</i>       |                          |                      |
| Within 1 year               | <b>₱709,004</b>          | ₱655,840             |
| More than 1 year to 5 years | <b>2,921,833</b>         | 2,636,354            |
| More than 5 years           | <b>22,300,856</b>        | 22,131,323           |
|                             | <b>₱25,931,693</b>       | ₱25,423,517          |



Accrued operating expenses - third parties consist of:

|                                      | <b>June 30,<br/>2021<br/>(Unaudited)</b> | December 31,<br>2020<br>(Audited) |
|--------------------------------------|--|-----------------------------------|
|                                      | <i>(In Thousands)</i>                    |                                   |
| Payable to contractors               | <b>₱5,010,607</b>                        | ₱4,045,630                        |
| Utilities                            | <b>2,849,615</b>                         | 2,532,449                         |
| Marketing and advertising and others | <b>4,478,109</b>                         | 3,284,979                         |
|                                      | <b>₱12,338,331</b>                       | ₱9,863,058                        |



## 15. Long-term Debt

This account consists of:

|  | Availability Date                    | Maturity Date                       | Interest Rate                               | Condition | Outstanding Balance          |                                |
|--|--------------------------------------|-------------------------------------|---|-----------|------------------------------|--------------------------------|
|  |                                      |                                     |   |           | June 30, 2021<br>(Unaudited) | December 31, 2020<br>(Audited) |
| <i>(In Thousands)</i>                    |                                      |                                     |   |           |                              |                                |
| <b>Parent Company</b>                    |                                      |                                     |   |           |                              |                                |
| Philippine peso-denominated loans        |                                      |                                     |   |           |                              |                                |
| Retail bonds                             | September 1, 2014 - February 5, 2021 | September 1, 2021 - March 25, 2027  | 2.46% - 6.22%                               | Unsecured | <b>₱91,995,300</b>           | ₱99,964,260                    |
| Other bank loans                         | June 19, 2012 - April 26, 2021       | June 19, 2022 - April 26, 2028      | Floating BVAL + margin; Fixed 4.51% - 4.75% | Unsecured | <b>46,430,000</b>            | 31,548,000                     |
| U.S. dollar-denominated loans*           | July 30, 2018 - April 27, 2021       | October 2, 2022 - March 29, 2026    | LIBOR USD + spread; quarterly               | Unsecured | <b>15,128,000</b>            | 10,084,830                     |
| <b>Subsidiaries</b>                      |                                      |                                     |   |           |                              |                                |
| Philippine peso-denominated loans        | June 3, 2013 - June 23, 2021         | February 8, 2021 - August 7, 2029   | Floating BVAL + margin; Fixed 3.61% - 6.37% | Unsecured | <b>83,723,020</b>            | 78,992,080                     |
| U.S. dollar-denominated loans**          | March 21, 2016 - January 29, 2021    | January 29, 2021 - January 25, 2026 | LIBOR USD + spread; semi-annual/quarterly   | Unsecured | <b>40,295,790</b>            | 39,669,574                     |
| China yuan renminbi-denominated loans*** | October 16, 2017 - May 6, 2021       | October 16, 2022- April 20, 2026    | LPR; annually; Fixed - 5.85%                | Secured   | <b>6,404,019</b>             | 2,559,639                      |
|  |                                      |                                     |   |           | <b>283,976,129</b>           | 262,818,383                    |
| Less debt issue cost                     |                                      |                                     |   |           | <b>1,608,006</b>             | 1,249,386                      |
|  |                                      |                                     |   |           | <b>282,368,123</b>           | 261,568,997                    |
| Less current portion                     |                                      |                                     |   |           | <b>27,959,206</b>            | 42,738,350                     |
|  |                                      |                                     |   |           | <b>₱254,408,917</b>          | ₱218,830,647                   |

LIBOR – London Interbank Offered Rate

BVAL – Bloomberg Valuation Service

LPR - China Loan Prime Rate

\*Hedged against foreign exchange risks using cross-currency swaps and interest rate swaps

\*\*Hedged against foreign exchange and interest rate risks using cross-currency swaps, principal-only swaps and interest rate swaps

\*\*\*Secured by portions of investment properties located in China. (see Note 10)



Debt issue cost pertaining to the loan availments in 2021 amounted to ₱613 million. Amortization of debt issue cost (included under “Others - net” in the interim consolidated statements of income) for the six-month periods ended June 30, 2021 and 2020 amounted to ₱254 million and ₱198 million, respectively.

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at June 30, 2021 and December 31, 2020, the Company is in compliance with the terms of its loan covenants.

#### Repayment Schedule

The repayments of long-term debt are scheduled as follows:

|                             | Gross Loan   | Debt Issue Cost         | Net          |
|-----------------------------|--------------|-------------------------|--------------|
|                             |              | ( <i>In Thousands</i> ) |              |
| Within 1 year               | ₱27,959,206  | (₱272,276)              | ₱27,686,930  |
| More than 1 year to 5 years | 234,704,463  | (1,292,190)             | 233,412,273  |
| More than 5 years           | 21,312,460   | (43,540)                | 21,268,920   |
|                             | ₱283,976,129 | (₱1,608,006)            | ₱282,368,123 |

Interest expense incurred from long-term debt amounted to ₱3,466 million and ₱3,469 million for the six-month periods ended June 30, 2021 and 2020, respectively (see Note 20).

## 16. Equity

#### Capital Stock

As at June 30, 2021 and December 31, 2020, 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.

As at June 30, 2021 and December 31, 2020, the Company has 28,856 million outstanding shares.

#### Retained Earnings

In 2021, the BOD approved the declaration of cash dividend of ₱0.082 per share or ₱2,368 million to stockholders of record as of May 5, 2021, ₱2 million of which was received by SMDC. This was paid on May 19, 2021.

In 2020, BOD approved the declaration of cash dividend of ₱0.185 per share or ₱5,343 million to stockholders of record as of June 30, 2020, ₱4 million of which was received by SMDC. This was paid on July 14, 2020.

As at June 30, 2021 and December 31, 2020, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million. This represents appropriation for land banking activities and planned construction projects for the next two to three years. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company. Approval of malls expansions and new projects is delegated by the BOD to the Executive Committee of the Company.



The retained earnings account is restricted for the payment of dividends to the extent of ₱112,800 million and ₱104,746 million as at June 30, 2021 and December 31, 2020, respectively, representing the cost of shares held in treasury amounting to ₱2,985 million as at June 30, 2021 and December 31, 2020 and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱109,815 million and ₱101,761 million as at June 30, 2021 and December 31, 2020, respectively. The accumulated equity in net earnings of subsidiaries, associates and joint ventures 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 June 30, 2021 and December 31, 2020, the Company has 4,310 million shares of treasury stock. This includes reacquired capital stock and shares held by a subsidiary, stated at acquisition cost of ₱2,985 million as at June 30, 2021 and December 31, 2020.

## 17. Related Party Transactions

The significant related party transactions entered into by the Company with SMIC, bank and retail of SM group and other related parties and the amounts included in the accompanying interim condensed consolidated financial statements with respect to these transactions follow:

|                                  | Amount of Transactions          |                                 | Outstanding Amount<br>[Asset (Liability)] |                                   | Terms                                      | Conditions              |
|----------------------------------|---------------------------------|---------------------------------|---|-----------------------------------|--|-------------------------|
|                                  | June 30,<br>2021<br>(Unaudited) | June 30,<br>2020<br>(Unaudited) | June 30,<br>2021<br>(Unaudited)           | December 31,<br>2020<br>(Audited) |  |                         |
| <i>(In Thousands)</i>            |                                 |                                 |   |                                   |  |                         |
| <b>Ultimate Parent</b>           |                                 |                                 |   |                                   |  |                         |
| Rent income                      | ₱29,445                         | ₱22,414                         | ₱-  | ₱-                                |  |                         |
| Rent receivable                  | -                               | -                               | 24,892                                    | 4,426                             | Noninterest-bearing                        | Unsecured; not impaired |
| Management fee income            | 1,149                           | 783                             | -   | -                                 |  |                         |
| Service income                   | 22,600                          | 24,000                          | -   | -                                 |  |                         |
| Service fee receivable           | -                               | -                               | 2,912                                     | 4,480                             | Noninterest-bearing                        | Unsecured; not impaired |
| Rent expense                     | 10,238                          | 22,560                          | -   | -                                 |  |                         |
| Trade payable                    | -                               | -                               | (12,913)                                  | (36,646)                          | Noninterest-bearing                        | Unsecured               |
| Equity instruments at FVOCI      | -                               | -                               | 146,030                                   | 153,263                           | Noninterest-bearing                        | Unsecured; not impaired |
| <b>Bank and Retail Group</b>     |                                 |                                 |   |                                   |  |                         |
| Cash and cash equivalents        | 80,030,594                      | 50,324,130                      | 11,128,908                                | 17,670,812                        | Interest bearing based on prevailing rates | Unsecured; not impaired |
| Rent income                      | 4,586,522                       | 5,693,681                       | -   | -                                 |  |                         |
| Rent receivable                  | -                               | -                               | 1,967,411                                 | 2,221,901                         | Noninterest-bearing                        | Unsecured; not impaired |
| Service income                   | 298                             | 14,091                          | -   | -                                 |  |                         |
| Management fee receivable        | -                               | -                               | 8,441                                     | 8,441                             | Noninterest-bearing                        | Unsecured; not impaired |
| Interest income                  | 116,135                         | 268,903                         | -   | -                                 |  |                         |
| Accrued interest receivable      | -                               | -                               | 18,953                                    | 12,049                            | Noninterest-bearing                        | Unsecured; not impaired |
| Receivable financed              | 358,861                         | 5,910,578                       | -   | -                                 | Without recourse                           | Unsecured               |
| Time deposits                    | -                               | -                               | 856,535                                   | 1,356,442                         | Interest-bearing                           | Unsecured; not impaired |
| Loans payable and long-term debt | -                               | 1,500,412                       | (12,438,384)                              | (14,139,453)                      | Interest-bearing                           | Unsecured               |
| Interest expense                 | 295,267                         | 397,057                         | -   | -                                 |  |                         |
| Accrued interest payable         | -                               | -                               | (49,239)                                  | (53,452)                          | Noninterest-bearing                        | Unsecured               |
| Rent expense                     | -                               | 38                              | -   | -                                 |  |                         |
| Trade payable                    | -                               | -                               | (89,412)                                  | (288,144)                         | Noninterest-bearing                        | Unsecured               |
| Management fee expense           | 780                             | 268                             | -   | -                                 |  |                         |
| Equity instruments at FVOCI      | -                               | -                               | 10,190,762                                | 9,614,605                         | Noninterest-bearing                        | Unsecured; not impaired |
| Cash in escrow                   | 176,374                         | 25,004                          | 322,678                                   | 144,209                           | Interest bearing based on prevailing rates | Unsecured; not impaired |
| Dividend income                  | 54,015                          | 54,015                          | -   | -                                 |  |                         |



|                              | Amount of Transactions          |                                 | Outstanding Amount<br>[Asset (Liability)] |                                   | Terms               | Conditions              |
|------------------------------|---------------------------------|---------------------------------|---|-----------------------------------|---------------------|-------------------------|
|                              | June 30,<br>2021<br>(Unaudited) | June 30,<br>2020<br>(Unaudited) | June 30,<br>2021<br>(Unaudited)           | December 31,<br>2020<br>(Audited) |                     |                         |
| <i>(In Thousands)</i>        |                                 |                                 |   |                                   |                     |                         |
| <b>Other Related Parties</b> |                                 |                                 |   |                                   |                     |                         |
| Rent income                  | ₱180,626                        | ₱72,076                         | ₱-  | ₱-                                |                     |                         |
| Rent receivable              | -                               | -                               | 66,555                                    | 23,178                            | Noninterest-bearing | Unsecured; not impaired |
| Service income               | 54,082                          | 29,568                          | -   | -                                 |                     |                         |
| Service fee receivable       | -                               | -                               | 7,984                                     | -                                 | Noninterest-bearing | Unsecured; not impaired |
| Management fee income        | 551                             | 3,388                           | -   | -                                 |                     |                         |
| Management fee receivable    | -                               | -                               | 6,862                                     | 6,862                             | Noninterest-bearing | Unsecured; not impaired |
| Accrued expenses             | -                               | -                               | (407,443)                                 | (407,443)                         | Noninterest-bearing | Unsecured               |
| Trade payable                | -                               | -                               | (105,564)                                 | (165,457)                         | Noninterest-bearing | Unsecured               |

### Compensation of Key Management Personnel

The aggregate compensation and benefits related to key management personnel for the six-month periods ended June 30, 2021 and 2020 consist of short-term employee benefits amounting to ₱529 million and ₱546 million, respectively, and post-employment benefits (pension benefits) amounting to ₱139 million and ₱95 million, respectively.

## 18. Other Revenues

This account consists of:

|                                      | June 30,<br>2021<br>(Unaudited) | June 30,<br>2020<br>(Unaudited) |
|--------------------------------------|---------------------------------|---------------------------------|
| <i>(In Thousands)</i>                |                                 |                                 |
| Food and beverages                   | ₱201,972                        | ₱301,777                        |
| Net merchandise sales                | 83,726                          | 150,190                         |
| Amusement income                     | 38,746                          | 152,674                         |
| Bowling and ice skating fees         | 10,565                          | 54,188                          |
| Advertising and others (see Note 17) | 720,790                         | 645,357                         |
|                                      | <b>₱1,055,799</b>               | <b>₱1,304,186</b>               |

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

## 19. Costs and Expenses

This account consists of:

|   | June 30,<br>2021<br>(Unaudited) | June 30,<br>2020<br>(Unaudited) |
|---|---------------------------------|---------------------------------|
| <i>(In Thousands)</i>                               |                                 |                                 |
| Cost of real estate sold (see Note 7)               | ₱10,393,754                     | ₱10,685,769                     |
| Depreciation and amortization (see Notes 10 and 12) | 5,272,189                       | 5,485,671                       |
| Administrative - net                                | 3,248,994                       | 4,528,675                       |
| Marketing and selling expenses                      | 2,551,841                       | 2,312,250                       |
| Business taxes and licenses                         | 2,357,261                       | 2,597,371                       |

*(Forward)*



|                     | <b>June 30,<br/>2021<br/>(Unaudited)</b> | June 30,<br>2020<br>(Unaudited) |
|---------------------|--|---------------------------------|
|                     | <i>(In Thousands)</i>                    |                                 |
| Rent (see Note 17)  | <b>₱323,979</b>                          | ₱399,679                        |
| Insurance           | <b>265,945</b>                           | 324,924                         |
| Film rentals        | <b>9,285</b>                             | 299,738                         |
| Others (see Note 6) | <b>592,608</b>                           | 694,132                         |
|                     | <b>₱25,015,856</b>                       | ₱27,328,209                     |

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

## 20. Interest Income and Interest Expense

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

|  | <b>June 30,<br/>2021<br/>(Unaudited)</b> | June 30,<br>2020<br>(Unaudited) |
|--|--|---------------------------------|
|  | <i>(In Thousands)</i>                    |                                 |
| Interest income on:                    |  |                                 |
| Cash and cash equivalents (see Note 5) | <b>₱287,707</b>                          | ₱567,911                        |
| Time deposits (see Note 12)            | <b>15,764</b>                            | 28,565                          |
| Others (see Notes 6 and 9)             | <b>39,260</b>                            | 29,376                          |
|  | <b>₱342,731</b>                          | ₱625,852                        |
| Interest expense on:                   |  |                                 |
| Long-term debt (see Note 15)           | <b>₱3,465,572</b>                        | ₱3,468,566                      |
| Loans payable (see Note 13)            | <b>95,738</b>                            | 100,966                         |
| Receivable financing (see Note 14)     | <b>25,409</b>                            | 142,535                         |
|  | <b>₱3,586,719</b>                        | ₱3,712,067                      |

## 21. 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, principal only swaps, interest rate swaps and forward 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 22).

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.



### Interest Rate Risk

The Company's policy is to manage its interest rate risk related to its financial instruments with floating interest and/or fixed interest rates by 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. Approximately 80% of its long-term borrowings as at June 30, 2021 and December 31, 2020 are at a fixed rate of interest after taking into account the effect of interest rate swaps.

### 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 U.S. dollar-denominated debt issuances 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\$29 million (₱1,423 million) as at June 30, 2021 and US\$25 million (₱1,179 million) as at December 31, 2020.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱48.80 to US\$1.00 and ₱48.02 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at June 30, 2021 and December 31, 2020, respectively.

### 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, debt capital and equity market issues.

### Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instruments 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.

The changes in the gross carrying amount of receivables and unbilled revenue from sale of real estate during the periods and the impact of COVID-19 pandemic did not materially affect the allowance for ECLs.



### 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 at FVOCI in the interim 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.

### 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.

## 22. Financial Instruments

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities and its related fair value hierarchy, by category and by class, other than those whose carrying values are reasonable approximations of fair values:

|   | June 30, 2021         |                     |                    |                   |                     |
|---|-----------------------|---------------------|--------------------|-------------------|---------------------|
|   | Carrying Value        | Fair Value          | Level 1            | Level 2           | Level 3             |
|   | <i>(In Thousands)</i> |                     |                    |                   |                     |
| <b>Financial Assets</b>   |                       |                     |                    |                   |                     |
| Financial assets at FVTPL:  |                       |                     |                    |                   |                     |
| Derivative assets   | ₱22,481               | ₱22,481             | ₱-                 | ₱22,481           | ₱-                  |
| Financial assets at amortized cost:                               |                       |                     |                    |                   |                     |
| Time deposits (included under<br>"Other noncurrent assets - net") | 2,102,747             | 2,102,747           | -                  | 2,102,747         | -                   |
| Financial assets at FVOCI:  |                       |                     |                    |                   |                     |
| Equity instruments  | 17,056,597            | 17,056,597          | 17,053,216         | -                 | 3,381               |
|   | <b>₱19,181,825</b>    | <b>₱19,181,825</b>  | <b>₱17,053,216</b> | <b>₱2,125,228</b> | <b>₱3,381</b>       |
| <b>Financial Liabilities</b>                                      |                       |                     |                    |                   |                     |
| Financial liabilities at FVTPL:                                   |                       |                     |                    |                   |                     |
| Derivative liabilities  | ₱2,236,664            | ₱2,236,664          | ₱-                 | ₱2,236,664        | ₱-                  |
| Loans and borrowings:   |                       |                     |                    |                   |                     |
| Liability for purchased land - net of<br>current portion          | 2,177,918             | 2,114,684           | -                  | -                 | 2,114,684           |
| Long-term debt - net of current<br>portion                        | 254,408,917           | 257,548,063         | -                  | -                 | 257,548,063         |
| Tenants' deposits - net of current<br>portion**                   | 21,103,491            | 21,084,935          | -                  | -                 | 21,084,935          |
| Other noncurrent liabilities**                                    | 6,025,509             | 5,970,186           | -                  | -                 | 5,970,186           |
|   | <b>₱285,952,499</b>   | <b>₱288,954,532</b> | <b>₱-</b>          | <b>₱2,236,664</b> | <b>₱286,717,868</b> |

\*Included as part of "Other noncurrent liabilities" account.

\*\*Excluding lease liability and nonfinancial liabilities amounting to ₱21,431 million as at June 30, 2021.



|   | December 31, 2020     |                     |                    |                   |                     |
|---|-----------------------|---------------------|--------------------|-------------------|---------------------|
|   | Carrying Value        | Fair Value          | Level 1            | Level 2           | Level 3             |
|   | <i>(In Thousands)</i> |                     |                    |                   |                     |
| <b>Financial Assets</b>   |                       |                     |                    |                   |                     |
| Financial assets at FVTPL:  |                       |                     |                    |                   |                     |
| Derivative assets   | ₱2,747                | ₱2,747              | ₱–                 | ₱2,747            | ₱–                  |
| Financial assets at amortized cost:                               |                       |                     |                    |                   |                     |
| Time deposits (included under<br>“Other noncurrent assets - net”) | 1,356,442             | 1,356,442           | –                  | 1,356,442         | –                   |
| Financial assets at FVOCI:  |                       |                     |                    |                   |                     |
| Equity instruments  | 16,699,714            | 16,699,714          | 16,696,333         | –                 | 3,381               |
|   | <b>₱18,058,903</b>    | <b>₱18,058,903</b>  | <b>₱16,696,333</b> | <b>₱1,359,189</b> | <b>₱3,381</b>       |
| <b>Financial Liabilities</b>                                      |                       |                     |                    |                   |                     |
| Financial liabilities at FVTPL:                                   |                       |                     |                    |                   |                     |
| Derivative liabilities  | ₱2,803,397            | ₱2,803,397          | ₱–                 | ₱2,803,397        | ₱–                  |
| Loans and borrowings:   |                       |                     |                    |                   |                     |
| Liability for purchased land - net of<br>current portion          | 1,251,227             | 1,204,295           | –                  | –                 | 1,204,295           |
| Long-term debt - net of current<br>portion                        | 218,830,647           | 214,950,879         | –                  | –                 | 214,950,879         |
| Tenants’ deposits - net of current<br>portion**                   | 21,077,872            | 20,772,115          | –                  | –                 | 20,772,115          |
| Other noncurrent liabilities**                                    | 5,192,291             | 5,147,613           | –                  | –                 | 5,147,613           |
|   | <b>₱249,155,434</b>   | <b>₱244,878,299</b> | <b>₱–</b>          | <b>₱2,803,397</b> | <b>₱242,074,902</b> |

\*Included as part of “Other noncurrent liabilities” account.

\*\*Excluding lease liability and nonfinancial liabilities amounting to ₱20,070 million as at December 31, 2020.

### 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).

During the six-months period ended June 30, 2021 and the year ended December 31, 2020, 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.

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:

*Time Deposits and Derivative Instruments.* The fair values are based on observable market inputs.

*Financial assets 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 1.05% to 5.19% and 1.24% to 4.67% as at June 30, 2021 and December 31, 2020, respectively.   |
| Variable Rate Loans | For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.71% to 4.53% and 3.72% to 4.44% as at June 30, 2021 and December 31, 2020, 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 2.60% to 2.95% and 2.13% to 5.47% as at June 30, 2021 and December 31, 2020, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not offset in the interim consolidated balance sheets.

Financial Instruments Accounted for as Cash Flow Hedges

*Cross currency Swaps.* The table below shows information on the Company's cross currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated loans.

| Year Obtained         | Maturity | Hedged Loan                       | Outstanding Notional Amount | Agreed Equivalent | Receive                 | Pay           |
|-----------------------|----------|-----------------------------------|-----------------------------|-------------------|-------------------------|---------------|
| <i>(In Thousands)</i> |          |                                   |                             |                   |                         |               |
| 2020                  | 2022     | Two - year term loans             | \$100,000                   | ₱4,828,000        | 3 months LIBOR +margin% | 2.88%         |
| 2020                  | 2024     | Four - year term loans            | \$150,000                   | ₱7,277,500        | 3 months LIBOR +margin% | 3.64% - 3.70% |
| 2019                  | 2024     | Five - year term loans            | \$286,000                   | ¥1,919,208        | 3 months LIBOR +margin% | 3.86% - 3.97% |
| 2018                  | 2023     | Five - year term syndicated loans | \$110,000                   | ₱5,865,700        | 3 months LIBOR +margin% | 6.37% - 6.39% |
| 2017                  | 2022     | Five - year term loans            | \$100,000                   | ¥671,715          | 3 months LIBOR +margin% | 4.95% - 5.43% |

The fair value of the outstanding cross currency swaps amounted to negative ₱2,039 million and negative ₱2,446 million as of June 30, 2021 and December 31, 2020, respectively.



*Principal Only Swaps.* In 2021, SM Land (China) Limited entered into principal only swap transactions to hedge the foreign currency exposures amounting to \$270 million of five-year term syndicated loan obtained on January 29, 2021 (see Note 15). Under the principal only swap, it effectively converted the hedged US dollar-denominated loans into China renminbi-denominated loans.

In 2016 and 2017, SM Land (China) Limited entered into principal only swap transactions to hedge the foreign currency exposures amounting to \$270 million of five-year term syndicated loan obtained on March 21, 2016 (see Note 15). Under the principal only swap, it effectively converted the hedged US dollar-denominated loans into China renminbi-denominated loans. The principal only swaps matured on January 29, 2021.

Cumulative fair value changes recognized in equity under other comprehensive income from the matured principal only swaps amounting to ₱134 million gain was transferred to the consolidated statements of income for the six-month period ended June 30, 2021.

As at June 30, 2021, SM Land (China) Limited's outstanding principal only swaps have notional amounts totaling US\$270 million which were fixed to US\$:¥ exchange rate 6.459 with maturities ranging from July 28, 2021 to January 23, 2026.

Fair value of the outstanding principal swaps amounted to negative ₱171 million as of June 30, 2021 and negative ₱300 million as of December 31, 2020.

*Interest Rate Swaps.* In 2021, SMPH entered into a floating to fixed US\$ interest rate swap agreement with notional amount of US\$100 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated loan into fixed rate loan with quarterly payment intervals up to March 27, 2026 (see Note 15).

In 2016, SM Land (China) Limited also entered into US\$ interest rate swap agreement with notional amount of US\$270 million. Under the agreement, SM Land (China) Limited effectively converts the floating rate U.S. dollar-denominated loan into fixed rate loan (see Note 15). The interest rate swaps matured on January 29, 2021.

Negative fair value of the outstanding interest rate swaps amounted to ₱4 million and ₱55 million as of June 30, 2021 and December 31, 2020, respectively.

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 interim consolidated statements of income for the six-month periods ended June 30, 2021 and 2020.

#### 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 fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to negative ₱2,214 million and negative ₱2,801 million as at June 30, 2021 and December 31, 2020, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the interim consolidated statements of income for the six-month periods ended June 31, 2021 and 2020. Foreign currency translation arising from the hedged loan recognized in the interim consolidated statements of income amounted to ₱76 million gain and ₱370 million loss for the six-month periods ended June 30, 2021 and 2020, respectively. Foreign exchange loss equivalent to the same amounts were recycled from equity to the interim consolidated statements of income during the same period.

#### Other Derivative Instruments Not Designated as Hedges

*Non-deliverable Currency Forwards and Swaps.* In 2021, SMPH entered into sell ₱ and buy US\$ currency forward contract. It also entered into sell US\$ and buy ₱ currency forward and swap contract with the same aggregate notional amount.

#### Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

|   | <b>June 30,<br/>2021</b> | December 31,<br>2020 |
|---|--------------------------|----------------------|
|   | <b>(Unaudited)</b>       | (Audited)            |
|   | <i>(In Thousands)</i>    |                      |
| Balance at beginning of period              | <b>(₱2,800,650)</b>      | ₱114,698             |
| Net changes in fair value during the period | <b>249,517</b>           | (2,915,348)          |
| Fair value of settled derivatives           | <b>336,950</b>           | -                    |
| Balance at end of year                      | <b>(₱2,214,183)</b>      | (₱2,800,650)         |

### 23. EPS Computation

Basic/diluted EPS is computed as follows:

|   | <b>June 30, 2021</b>                         | June 30, 2020 |
|---|--|---------------|
|   | <b>(Unaudited)</b>                           | (Unaudited)   |
|   | <i>(In Thousands, Except Per Share Data)</i> |               |
| Net income attributable to equity holders of the parent (a) | <b>₱11,644,915</b>                           | ₱10,432,887   |
| Common shares issued  | <b>33,166,300</b>                            | 33,166,300    |
| Less weighted average number of treasury stock              | <b>4,309,889</b>                             | 4,309,889     |
| Weighted average number of common shares outstanding (b)    | <b>28,856,411</b>                            | 28,856,411    |
| Earnings per share (a/b)                                    | <b>₱0.404</b>                                | ₱0.362        |



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## 24. Other Matters

### Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25%. For entities with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

Applying the provisions of the CREATE Act, the Company have been subjected to the lower tax rate of 15% (optional standard deduction) to 25% (itemized deduction) of taxable income and 1% MCIT of gross income effective July 1, 2020.

The Company recognized one-time impact of CREATE for the year ended December 31, 2020 in the interim consolidated statement of comprehensive income for the six-months period ended June 30, 2021 amounting to ₱310 million and ₱39 million for provision for income tax (current and deferred) and remeasurement loss on defined benefit obligation, respectively. Deferred tax liabilities – net also decreased by ₱222 million.



## **INDEPENDENT AUDITOR'S REPORT ON INTERIM SUPPLEMENTARY SCHEDULES**

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

We have reviewed in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, the interim condensed consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the "Company") as at June 30, 2021 and for the six-month periods ended June 30, 2021 and 2020 and have issued our report thereon dated August 31, 2021. Our review was made for the purpose of expressing a conclusion on the basic interim condensed consolidated financial statements taken as whole. The schedules listed in the Index to the Interim Condensed Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic interim condensed consolidated financial statements. These schedules have been subjected to the procedures applied in the review of the interim condensed consolidated financial statements and, based on our review, nothing has come to our attention that causes us to believe that the information required to be set forth therein has not been prepared, in all material respects, in relation to the basic interim condensed consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0943-AR-3 (Group A),

March 14, 2019, valid until March 13, 2022

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-078-2020,

December 3, 2020, valid until December 2, 2023

PTR No. 8534224, January 4, 2021, Makati City

August 31, 2021

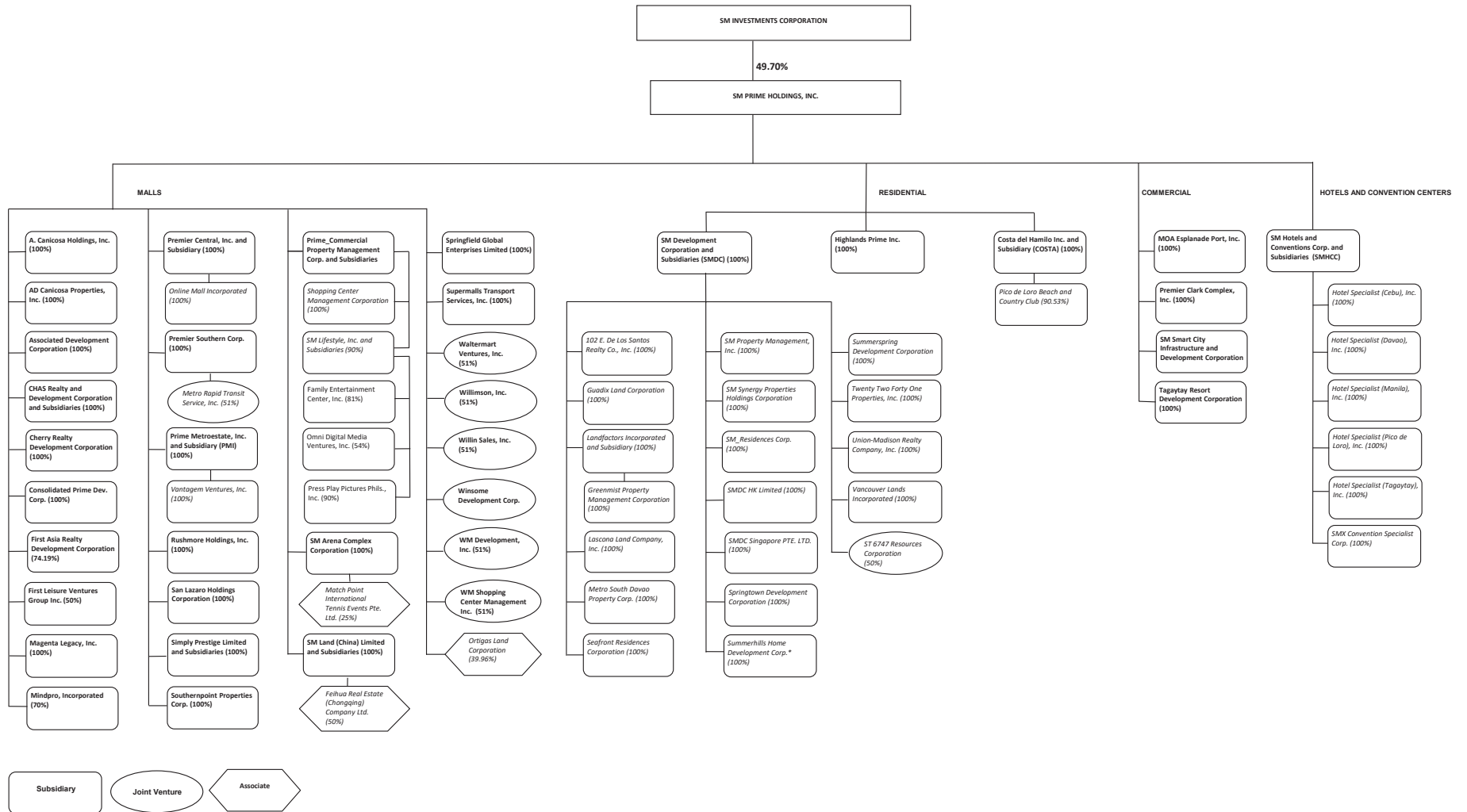


**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**INDEX TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL**  
**STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**June 30, 2021**

Annex I. Map of the Relationships of the Companies Within the Group

Annex II. Supplementary Schedules Required by Revised SRC Rule 68, Part II, Annex 68-J.

Annex III. Reconciliation of Retained Earnings Available for Dividend Declaration



\* Summerhills Home Development Corp. is 79.6% owned by SMDC and 20.4% owned by SMPH  
 \*\* Affluent Capital Enterprises Limited and Subsidiaries and Mega Make Enterprises Limited and Subsidiaries are now subsidiaries of SM Land (China) Limited  
**Note: % Refers to Effective Ownership**

**SM Prime Holdings, Inc. and Subsidiaries**  
**Supplementary Schedules Required by Paragraph 7D, Part II**  
**Under Revised SRC Rule 68, Part II, Annex 68-J**  
**June 30, 2021**

**Schedule A. Financial Assets**

| Name of issuing entity and association of each issue                     | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Income Received and Accrued |
|--|---|-----------------------------------|-----------------------------|
| <i>(In Thousands)</i>  |   |                                   |                             |
| <b>Financial Assets at Amortized Costs*</b>                              |   |                                   |                             |
| Temporary investments:   |   |                                   |                             |
| Banco de Oro (BDO)   | PHP 8,355,968   | PHP 8,355,968                     |                             |
| China Banking Corporation (CHIB)   | PHP 423,351   | 423,351                           |                             |
| China Merchants Bank   | RMB 177,500   | 1,340,622                         |                             |
| Industrial and Commercial Bank of China                                  | RMB 50,400  | 380,661                           |                             |
| Bank of East Asia Ltd  | RMB 229,000   | 1,729,591                         |                             |
| China Industrial Bank  | RMB 10,000  | 75,528                            |                             |
| China Construction Bank  | RMB 85,000  | 641,988                           |                             |
| Others   | PHP 51,297  | 51,297                            |                             |
| Time deposits on hold:   |   |                                   |                             |
| Industrial and Commercial Bank of China                                  | RMB 165,000   | PHP 1,246,212                     |                             |
| BDO  | PHP 800,000   | 800,000                           |                             |
| CHIB   | PHP 56,535  | 56,535                            |                             |
| Cash in escrow:  |   |                                   |                             |
| CHIB   | PHP 314,272   | 314,272                           |                             |
| BDO  | PHP 8,406   | 8,406                             |                             |
|  |   | PHP 15,424,431                    | PHP 282,699                 |
| <b>Financial assets at fair value through profit or loss</b>             |   |                                   |                             |
| Derivative assets  | PHP 22,481  | 22,481                            |                             |
| <b>Financial assets at fair value through other comprehensive income</b> |   |                                   |                             |
| BDO Unibank, Inc.  | 90,024,395 shares                                       | PHP 10,190,762                    |                             |
| Ayala Corporation  | 7,690,430 shares  | 6,152,344                         |                             |
| Shang Properties, Inc.   | 189,550,548 shares                                      | 509,891                           |                             |
| SM Investments Corporation   | 146,104 shares  | 146,031                           |                             |
| Republic Glass Holdings Corporation                                      | 14,230,000 shares                                       | 40,982                            |                             |
| Picop Resources, Inc.  | 40,000,000 shares                                       | 8,200                             |                             |
| PLDT, Inc.   | 253,270 shares  | 2,533                             |                             |
| Export & Industry Bank   | 7,829,000 shares  | 2,036                             |                             |
| Prime Media Holdings, Inc.   | 500,000 shares  | 1,550                             |                             |
| Benguet Corporation  | 266,757 shares  | 1,518                             |                             |
| Others   | 964 shares  | 750                               |                             |
|  |   | PHP 17,056,597                    | PHP 96,409                  |
|  |   | PHP 32,503,509                    | PHP 379,108                 |

\*Excluding cash on hand and in banks

**Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)**

*Not applicable*

**Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements**

| (Amounts in Thousands)                      |                                       |                   |                          |                            |                |                    |                                 |
|---|---------------------------------------|-------------------|--------------------------|----------------------------|----------------|--------------------|---------------------------------|
| <b>Name and Designation of Debtor</b>       | <b>Balance at Beginning of Period</b> | <b>Additions</b>  | <b>Amounts Collected</b> | <b>Amounts Written Off</b> | <b>Current</b> | <b>Not Current</b> | <b>Balance at End of Period</b> |
| SM Land (China) Limited and Subsidiaries    | ₱7,781,170                            | ₱1,496,767        | (₱1,605,648)             | ₱-                         | ₱-             | ₱7,672,289         | <b>₱7,672,289</b>               |
| San Lazaro Holdings Corporation             | 1,361,750                             | 241               | -                        | -                          | -              | 1,361,991          | <b>1,361,991</b>                |
| Costa del Hamilo, Inc.                      | 844,004                               | 3,473             | (3,020)                  | -                          | -              | 844,457            | <b>844,457</b>                  |
| SM Development Corporation and Subsidiaries | 652,951                               | 72,040            | (81,602)                 | -                          | -              | 643,389            | <b>643,389</b>                  |
| Mindpro Inc.                                | 326,227                               | 150,600           | (907)                    | -                          | -              | 475,920            | <b>475,920</b>                  |
| Prime Commercial Property Management Corp.  | 428,764                               | -                 | (6,058)                  | -                          | -              | 422,706            | <b>422,706</b>                  |
| SM Prime Holdings, Inc.                     | 141,651                               | 1,513,103         | (1,534,595)              | -                          | -              | 120,159            | <b>120,159</b>                  |
| SM Hotels and Convention Center             | 70,595                                | -                 | (12,252)                 | -                          | -              | 58,343             | <b>58,343</b>                   |
| Associated Development Corporation          | 54,750                                | -                 | -                        | -                          | -              | 54,750             | <b>54,750</b>                   |
| Tagaytay Resort and Development Corporation | 36,521                                | 125               | -                        | -                          | -              | 36,646             | <b>36,646</b>                   |
| Premier Central, Inc.                       | 630,106                               | 35,314            | (647,711)                | -                          | -              | 17,709             | <b>17,709</b>                   |
| First Asia Realty Development Corp.         | 28,781                                | 57,261            | (78,283)                 | -                          | -              | 7,759              | <b>7,759</b>                    |
| Premier Southern Corp                       | 18,027                                | 48,885            | (62,024)                 | -                          | -              | 4,888              | <b>4,888</b>                    |
| Southernpoint Properties Corporation        | 6,862                                 | 27,534            | (29,810)                 | -                          | -              | 4,586              | <b>4,586</b>                    |
| Consolidated Prime Dev Corp                 | 18,677                                | 28,742            | (43,569)                 | -                          | -              | 3,850              | <b>3,850</b>                    |
| SM Arena Complex Corporation                | 49,523                                | 6,253             | (54,015)                 | -                          | -              | 1,761              | <b>1,761</b>                    |
| First Leisure Ventures Group Inc.           | 6,012                                 | 7,730             | (12,157)                 | -                          | -              | 1,585              | <b>1,585</b>                    |
| MOA Esplanade Port Inc                      | 2,126                                 | 1,058             | (2,061)                  | -                          | -              | 1,123              | <b>1,123</b>                    |
| Prime Metroestate, Inc.                     | 839                                   | 2,727             | (2,908)                  | -                          | -              | 658                | <b>658</b>                      |
| CHAS Realty                                 | 2,145                                 | 12,424            | (14,491)                 | -                          | -              | 78                 | <b>78</b>                       |
| Highlands Prime Inc                         | -                                     | 32                | -                        | -                          | -              | 32                 | <b>32</b>                       |
|   | <b>₱12,461,481</b>                    | <b>₱3,464,309</b> | <b>(₱4,191,111)</b>      | <b>₱-</b>                  | <b>₱-</b>      | <b>₱11,734,679</b> | <b>₱11,734,679</b>              |

**Schedule D. Long-term debt**

*This schedule has been omitted because the information required to be presented is included in the interim condensed consolidated financial statements.*

**Schedule E. Indebtedness to Related Parties**

*Not applicable*

**Schedule F. Guarantees of Securities of Other Issuers**

*Not applicable*

**Schedule G. Capital Stock**

| <b>Title of Issue</b> | <b>Number of Shares Authorized</b> | <b>Number of Shares Issued as Shown Under Related Balance Sheet Caption</b> | <b>Number of Shares Outstanding as Shown Under Related Balance Sheet Caption</b> | <b>Number of Shares Held by Related Parties</b> | <b>Directors, Officers and Employees</b> | <b>Others</b> |
|-----------------------|------------------------------------|---|--|---|--|---------------|
| Common                | 40,000,000,000                     | 33,166,300,075  | 28,856,411,418   | 16,191,383,417                                  | 3,218,278,147                            | 9,446,749,854 |

**SM Prime Holdings, Inc.**  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**June 30, 2021**

|  |                        |                               |
|--|------------------------|-------------------------------|
| Unappropriated retained earnings as at January 1, 2021                                     |                        | ₱183,040,510,109              |
| Adjustments for:   |                        |                               |
| Non-actual/unrealized income, net of applicable tax:                                       |                        |                               |
| Equity in net earnings of subsidiaries, associates and joint ventures                      | (104,694,701,158)      |                               |
| Deferred tax assets  | (2,191,680,863)        |                               |
| Treasury stock   | <u>(2,613,650,429)</u> | <u>(109,500,032,450)</u>      |
| Unappropriated retained earnings as at January 1, 2021, available for dividend declaration |                        | 73,540,477,659                |
| Net income closed to retained earnings in 2021   | 11,753,674,691         |                               |
| Adjustments for:   |                        |                               |
| Non-actual/unrealized income, net of applicable tax:                                       |                        |                               |
| Equity in net earnings of subsidiaries, associates and joint ventures                      | (7,943,846,273)        |                               |
| Movement of deferred tax assets  | <u>220,476,507</u>     |                               |
| Net income actually earned in 2021   |                        | 4,030,304,925                 |
| Less: Cash dividends in 2021   |                        | <u>(2,368,096,994)</u>        |
| <b>Retained earnings as at June 30, 2021 available for dividend declaration</b>            |                        | <b><u>₱75,202,685,590</u></b> |

## **INDEPENDENT AUDITOR'S REPORT ON INTERIM COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have reviewed in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, the interim condensed consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the "Company") as at June 30, 2021 and for the six-month periods ended June 30, 2021 and 2020 and have issued our report thereon dated August 31, 2021. Our review was made for the purpose of expressing a conclusion on the interim condensed consolidated financial statements taken as whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not part of the basic interim condensed consolidated financial statements in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's interim condensed consolidated financial statements as at June 30, 2021 and for the six-month periods ended June 30, 2021 and 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0943-AR-3 (Group A),  
March 14, 2019, valid until March 13, 2022

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-078-2020,  
December 3, 2020, valid until December 2, 2023

PTR No. 8534224, January 4, 2021, Makati City

August 31, 2021



**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS**  
**AS OF JUNE 30, 2021 and 2020**

| Ratio                           | Formula   | June 30,<br>2021 | December<br>31, 2020 |
|---------------------------------|---|------------------|----------------------|
|                                 | <i>(In Thousands)</i>   |                  |                      |
| <b>Current Ratio</b>            | <b>Total Current Assets divided by Total Current Liabilities</b>  | <b>1.39</b>      | 1.16                 |
|                                 | Total current assets  | ₱157,230,842     |                      |
|                                 | Divide by: Total current liabilities  | 112,960,985      |                      |
|                                 | Current Ratio   | 1.39             |                      |
| <b>Acid Test Ratio</b>          | <b>Quick assets (Total Current Assets less Inventories and Prepaid expenses) divided by Total Current Liabilities</b> | <b>0.76</b>      | 0.66                 |
|                                 | Total current assets  | ₱157,230,842     |                      |
|                                 | Less: Real estate inventories   | (46,945,563)     |                      |
|                                 | Prepaid expenses  | (24,724,040)     |                      |
|                                 | Quick assets  | 85,561,239       |                      |
|                                 | Divide by: Total current liabilities  | 112,960,985      |                      |
|                                 | Acid test ratio   | 0.76             |                      |
| <b>Debt-to-Equity Ratio</b>     | <b>Total Interest-Bearing debt divided by Total Equity</b>  | <b>47:53</b>     | 47:53                |
|                                 | Total interest-bearing debt   | ₱286,810,690     |                      |
|                                 | To: Total equity attributable to equity holders of the parent   | 319,594,921      |                      |
|                                 | Debt to equity ratio  | 47:53            |                      |
| <b>Net debt-to-equity ratio</b> | <b>Total Interest-Bearing debt less cash and cash equivalents and investment securities divided by Total Equity</b>   | <b>45:55</b>     | 44:56                |
|                                 | Total interest-bearing debt   | ₱286,810,690     |                      |
|                                 | Cash and cash equivalents   | (26,839,332)     |                      |
|                                 | Total interest-bearing liabilities less cash and cash equivalents and investment securities                           | 259,971,358      |                      |
|                                 | To: Total equity attributable to equity holders of the parent   | 319,594,921      |                      |
|                                 | Net debt-to-equity ratio  | 45:55            |                      |
| <b>Solvency Ratio</b>           | <b>Total Assets divided by Total Liabilities</b>  | <b>1.75</b>      | 1.75                 |
|                                 | Total assets  | ₱749,413,811     |                      |
|                                 | Divide by: Total liabilities  | 428,470,470      |                      |
|                                 | Asset to liabilities ratio  | 1.75             |                      |

| <b>Ratio</b>                            | <b>Formula</b>   | <b>June 30,<br/>2021</b> | <b>December<br/>31, 2020</b> |
|---|--|--------------------------|------------------------------|
| <b>Asset to equity ratio</b>            | <b>Total assets divided by Total Equity</b>  | <b>2.34</b>              | <b>2.34</b>                  |
|   | Total assets   | ₱749,413,811             |                              |
|   | Divide by: Total equity attributable to equity holders of the parent   | 319,594,921              |                              |
|   | Asset to equity ratio  | 2.34                     |                              |
| <b>Interest Rate Coverage Ratio</b>     | <b>Earnings Before Interest , Taxes and Depreciation and Amortization (EBITDA) divided by Total Interest Expense</b> | <b>5.94</b>              | <b>5.86</b>                  |
|   | Income from operations   | ₱16,072,254              |                              |
|   | Less: Minority interest income   | (44,182)                 |                              |
|   | Add: Depreciation and amortization   | 5,272,189                |                              |
|   | EBITDA   | 21,300,261               |                              |
|   | Divide by: Interest expense  | 3,586,719                |                              |
|   | Interest rate coverage ratio   | 5.94                     |                              |
| <b>Debt to EBITDA</b>                   | <b>Total interest-bearing liabilities divided by EBITDA*</b>   | <b>6.73</b>              | <b>5.54</b>                  |
|   | Total interest-bearing liabilities   | ₱286,810,690             |                              |
|   | Divide by: EBITDA*   | 42,600,522               |                              |
|   | Debt to EBITDA   | 6.73                     |                              |
| <b>Return on Equity*</b>                | <b>Net Income divided by Average Total Equity</b>  | <b>7%</b>                | <b>7%</b>                    |
|   | Net income attributable to equity holders of the parent  | ₱23,289,830              |                              |
|   | Divide by: Average total equity attributable to equity holders of the parent   | 314,439,494              |                              |
|   | Return on Equity   | 7%                       |                              |
| <b>Return on Investment Properties*</b> | <b>Net Income divided by Average Investment Properties</b>   | <b>6%</b>                | <b>6%</b>                    |
|   | Net income attributable to equity holders of the parent  | ₱23,289,830              |                              |
|   | Divide by: Total average investment properties (excluding construction in progress)                                  | 371,205,148              |                              |
|   | Return on Investment Properties  | 6%                       |                              |

\*annualized

## 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 interim condensed consolidated financial statements including interim consolidated balance sheet as at June 30, 2021 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2021 and 2020, 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 interim condensed consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the interim condensed 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 interim condensed 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 reviewed the interim condensed consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries in accordance with the Philippine Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and in its report to the stockholders, has concluded that based on their review, nothing has come to their attention that causes them to believe that the interim condensed consolidated financial statements are not prepared, in all material respect, in accordance with PAS 34.



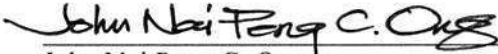
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Henry T. Sy, Jr.  
Chairman



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Jeffrey C. Lim  
President



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John Nai Peng C. Ong  
Chief Finance Officer


Signed this 27<sup>th</sup> of August, 2021

SUBSCRIBED AND SWORN to before me this AUG 27 2021 at PASAY CITY, affiants exhibiting to me their Philippine passports, as follows:

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



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SERIESE OF 2021

  
**ATTY. JOVINO R. ANGEL**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2022  
PTR NO. 7361920 01/04/2021 PASAY CITY  
BP NO. 141069 01/04/2021 PASAY CITY  
COMMISSION NO. 19-37-PASAY CITY  
ACLE NO V-0024151-10-25-2016  
ROLL NO. 28/61

**SM Prime Holdings, Inc. and Subsidiaries**  
**Aging of Accounts Receivable and Contract Assets**  
**As at June 30, 2021**  
*(Amounts in Thousands)*

|   |                     |
|---|---------------------|
| Trade (billed and unbilled):                                    |                     |
| Sale of real estate   | <b>₱103,781,879</b> |
| Rent:   |                     |
| Third parties   | 4,745,644           |
| Related parties   | 2,058,858           |
| Others  | 5,592               |
| Accrued interest  | 185,370             |
| Nontrade  | 120,551             |
| Others  | 2,401,430           |
|   | <b>113,299,324</b>  |
| Less allowance for ECLs   | <b>1,057,614</b>    |
|   | <b>112,241,710</b>  |
| Less noncurrent portion of receivables from sale of real estate | <b>54,082,430</b>   |
|   | <b>₱58,159,280</b>  |

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

|                               |                     |
|-------------------------------|---------------------|
| Neither past due nor impaired | <b>₱97,216,738</b>  |
| Past due but not impaired:    |                     |
| Less than 30 days             | 2,692,378           |
| 31–90 days                    | 3,607,580           |
| 91–120 days                   | 1,519,177           |
| Over 120 days                 | 7,205,837           |
| Impaired                      | 1,057,614           |
|                               | <b>₱113,299,324</b> |

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

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**Retail Bond – Series M and N Bonds**  
**As of June 30, 2021**

(1) **Gross and Net Proceeds as Disclosed in the Final Prospectus**

|                    |                       |
|--------------------|-----------------------|
| Gross Proceeds     | ₱10,000,000,000       |
| Estimated Expenses | <u>(121,347,040)</u>  |
| Net Proceeds       | <u>₱9,878,652,960</u> |

(2) **Actual Gross and Net Proceeds**

|                 |                       |
|-----------------|-----------------------|
| Gross Proceeds  | ₱10,000,000,000       |
| Actual Expenses | <u>(119,847,040)</u>  |
| Net Proceeds    | <u>₱9,880,152,960</u> |

(3) **Each Expenditure Item where the Proceeds were Used**

The net proceeds was used to finance capital expenditures of the following:

| <b>Projects</b>                         | <b>Amounts in million</b> |
|---|---------------------------|
| SM City Marilao Expansion               | ₱1,008                    |
| Lanson Place - Serviced Suites Phase 1  | 895                       |
| Four Ecom – Podium and Towers 1-3       | 786                       |
| Lanson Place - Hotel Phase 1            | 760                       |
| Clark Skyline 6A-6D and Tower 9         | 757                       |
| Park Inn by Radisson Bacolod            | 596                       |
| SM City Marikina – New Parking Building | 528                       |
| SM City Tanza                           | 332                       |
| SM City Fairview Tower 3                | 291                       |
| SM City Sta. Rosa – The Core Tower 2    | 271                       |
| NU Lipa                                 | 247                       |
| SM City Sorsogon                        | 241                       |
| NU Dasmaringas                          | 220                       |
| SM City Fairview Tower 4                | 218                       |
| SM City Tarlac Expansion                | 184                       |
| SM City Taytay Expansion                | 183                       |
| Silangan Warehouse A                    | 144                       |
| SM City Bacolod – NU and Retail         | 141                       |
| SM City Cauayan Expansion               | 85                        |
| SM City Sto. Tomas                      | 60                        |
| SM City Bataan                          | 33                        |
| SM Megacenter Cabanatuan Expansion      | 16                        |
| <b>TOTAL</b>                            | <b><u>₱7,996</u></b>      |

- (4) As of June 30, 2021, ₱1,884 million of the proceeds from retail bond remained unused for the expansion and construction of mall and commercial properties projects.