

# COVER SHEET

SEC Registration Number

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Company Name

S	M		I	N	V	E	S	T	M	E	N	T	S		C	O	R	P	O	R	A	T	I	O	N		A	N	D
		S	U	B	S	I	D	I	A	R	I	E	S																

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

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H	a	r	b	o	r		D	r	i	v	e	,		M	a	l	l		o	f		A	s	i	a		C	o	m
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Form Type

1	7	-	A
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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

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Company's Telephone Number/s

857-0100
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Mobile Number

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No. of Stockholders

1,237
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Annual Meeting  
Month/Day

04/29
-------

Fiscal Year  
Month/Day

12/31
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## CONTACT PERSON INFORMATION

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

Name of Contact Person

Mr. Jose T. Sio
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Email Address

—
---

Telephone Number/s

857-0100
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Mobile Number

—
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Contact Person's Address

10 <sup>th</sup> Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300
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**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SEC Number 016342

**SM INVESTMENTS CORPORATION**

(Company's Full Name)

**10th Floor,  
OneE-Com Center, Harbor Drive,  
Mall of Asia Complex, CBP-1A  
Pasay City, 1300**

(Company's Address)

**857-0100**

(Telephone Number)

**December 31**

(Year Ending)  
(month & day)

**SEC Form 17-A  
Annual Report**

Form Type

Amendment Designation (If applicable)

**December 31, 2014**

Period Ended Date

(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2014**
2. SEC Identification Number **0000016342** 3. BIR Tax Identification No. **169-020-000**
4. Exact name of registrant as specified in its charter **SM INVESTMENTS CORPORATION**
5. **PHILIPPINES** 6.  (SEC Use Only)  
Province, Country or other jurisdiction of incorporation or organization Industry Classification Code:
7. **10<sup>th</sup> Floor, OneE-Com Center, Harbor Drive, Mall of Asia  
Complex, CBP-1A, Pasay City** **1300**  
Address of principal office Postal Code
8. **(632) 857-0100 / fax (632) 857-0132**  
Registrant's telephone number, including area code
9. \_\_\_\_\_  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstandi
<b>COMMON SHARES, P 10 PAR VALUE</b>	<b>800,306,594</b>

11. Are any or all of these securities listed on a Stock Exchange.  
Yes [☒] No [☐]  
If yes, state the name of such stock exchange and the classes of securities listed therein:  
  
Philippine Stock Exchange, 800,306,594, P10 par value, common shares
12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
Yes [☒] No [☐]
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes [☐] No [☒]
13. Aggregate market value of the voting stock held by non-affiliates: **P296,687,263,380**  
as of December 31, 2014.

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## PART I - BUSINESS AND GENERAL INFORMATION

### ITEM 1. Business

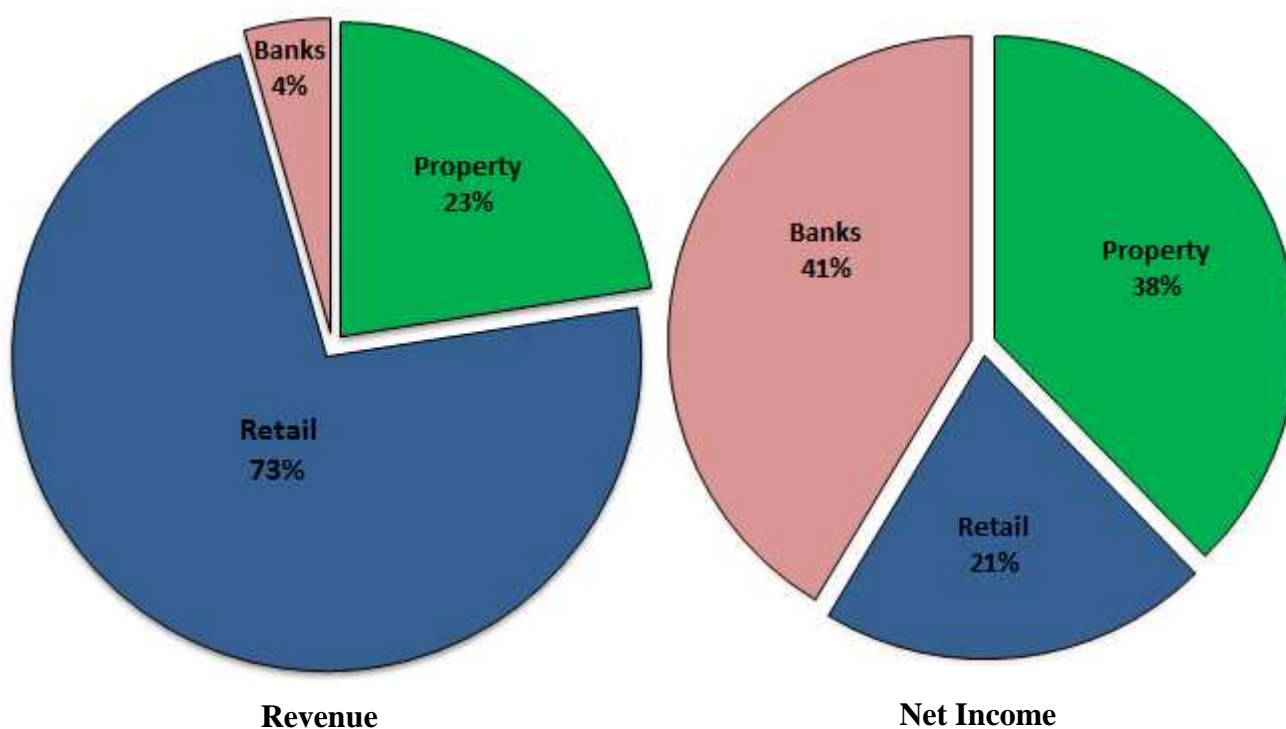
#### Business Development

**SM Investments Corporation (SMIC)**, is the holding company of the SM Group of Companies. For management purposes, the Group is organized into business units based on their products and services. As a result of the Property Group corporate restructuring in 2013, the Group changed the presentation of its segment information and has identified three reportable operating segments as follows: property, retail, and financial services and others.

The property segment is involved in mall, residential, commercial, hotels and convention centers and leisure and resorts operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, 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. The hotels and convention centers and leisure and resorts segments engage in and carry on the business of hotel and resort and operates and maintains any and all services and facilities incident thereto.

SMIC was incorporated in the Philippines on 15 January 1960 with its registered office at 10<sup>th</sup> Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City, Philippines.

The contribution of each of the business segments to the December 31, 2014 consolidated revenues and net income of SMIC are as follows:



## **Business of Issuer**

### **Retail**

**SM Retail, Inc.** (“**SM Retail**”) was incorporated in June 2002 and started operations in January 2008. It is the holding company for the Group’s retail and merchandising operations.

SM Retail organizes its retail and merchandising operations broadly into two categories: non-food and food. Non-food retail operations consist of the business of “The SM Store”, formerly called SM Department Stores. Food retail operations comprise the SM Supermarkets, SaveMore, SM Hypermarkets, and Waltermart stores.

### **Non-Food**

“**The SM Store**” signifies the business’ commitment to being the fashion store for all amid rapidly changing fashion trends, highly competitive local and global labels and increased purchasing power. In line with its rebranding, the business continues to roll out new store designs and lay-outs to accommodate more brands and deliver an enhanced shopping experience. An institution that has become part of the lives of many Filipinos, it serves millions of customers through its fifty (50) stores across the country.

These fifty (50) stores are strategically located in Metro Manila and key provincial cities, making it possible for the SM brand to be available to a wide customer base. Five (5) stores, Makati, Cubao, Quiapo, Harrison, and Delgado, are standalone stores while the forty-five (45) stores are based inside the SM Supermalls.

In 2014, two (2) new stores were opened in Cauayan, Isabela and Cabanatuan, Nueva Ecija. These new stores contributed an additional 8,330 sq. m., bringing the net selling area of the fifty (50) stores to 434,607 sq. m.

In spite of the expansion of established Department Store chains as well as the entry of foreign brands, the SM Store has maintained its market leadership in the department store format. This can be attributed to product innovations, new brand entries, and the growth of in-house brands that make the offerings of the store unique to competition. Moreover, innovative store designs and improved customer service and amenities ensure that “The SM Store” is a cut above the rest of the retailers in the country. These improvements in the brand mix of The SM Store have garnered recognition from local and international associations. Testament to this is the Best of the Best Award from Retail Asia for the past five consecutive years, and the elevation of The SM Store as a Hall of Fame Awardee.

### **Food**

**SM Supermarkets, SaveMore and SM Hypermarkets** currently has forty (40) *SM Supermarkets*, one hundred thirteen (113) *SaveMore* stores and forty-two (42) *SM Hypermarkets*.

SM Supermarket stores are located within the malls. SaveMore stores, on the other hand, are not limited to malls but serve as modernized neighbourhood or community store. SM Hypermarkets prov

In 2014, one (1) supermarket was opened in Cauayan, Isabela.

In 2014, twenty-two (22) savemore branches were opened in Nunez, General Santos City; San Pedro, Laguna; Sta. Cruz, Laguna; Candon, Ilocos Sur; Francis Market, Tinejeros, Malabon City; Carcar, Cebu City; Agora, Lucena City; Solano, Nueva Vizcaya; Tumauini, Isabela; Cyberwest, Quezon City; San Nicolas, Ilocos Norte; Camiling, Tarlac; Guagua, Pampanga; SM Center Angono, Rizal; Bayombong, Nueva Viscaya; Santiago City; Roxas, Isabela; Tacloban City; Calumpang, General Santos City; Fortune Town, Bacolod City; San Fernando, Pampanga; and Cabiao Nueva Ecija.

In 2014, three (3) hypermarkets were opened. These were in Daet, Camarines Norte; Sun Residences, Quezon City; and Rosario, Batangas.

The net selling area of the one hundred ninety-five (195) stores is 564,776 sq. m.

For 2015, the retail food group plans to open another 22 stores. Expansion plans for 2015 include the opening of three supermarkets, seventeen SaveMore branches and two hypermarkets.

**Walmart Supermarket, Inc. (WSI)**, a corporation mainly engaged in the business of supermarket retailing, was registered with the SEC in January 1994.

It opened two (2) stores in 2014 bringing the total number of stores to twenty-four (24) as of the end of the year. It plans to grow its store network by at least one (1) to two (2) stores annually.

### **Property**

**SM Prime Holdings, Inc. (“SM Prime”)**, is the country’s leading shopping mall developer and operator. In 2013, the Sy family initiated a corporate restructuring exercise to consolidate all of the SM Group’s real estate subsidiaries and real estate assets under SM Prime. The reorganization was approved by the Board of Directors of SM Prime on May 31, 2013. The reorganization was achieved through (1) SM Land’s tender offers for SM Development Corporation (SMDC) and Highlands Prime, Inc. (HPI), (2) Merger of SM Prime and SM Land, and (3) Acquisition of Unlisted Real Estate Companies and Assets from SMIC and the Sy Family.

### **Malls**

SM Prime operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. Its main sources of revenues include rental income from leases in malls and food courts, cinema ticket sales and amusement income from bowling centers and ice skating rinks. The mall business unit currently has fifty malls in the Philippines with 6.5 million square meters (sq. m.) of gross floor area (GFA) and five shopping malls in China with 0.8 million sq. m. of GFA.

In 2014, SM Prime opened two malls in the Philippines, namely, *SM City Cauayan* in Isabela province, and *SM Center Angono* in Rizal province and expanded the shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong. The new malls and expansion added 213,000 sq. m. to SM Prime’s total GFA. For 2015, the SM Prime is set to open four new malls, located in Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as the expansions of SM City Iloilo and SM City Lipa. By yearend, SM Prime will have an estimated 7.8 million square meters of gross floor area.

## **Residential**

SM Prime's residential revenue is derived primarily from property development and sales, which is conducted by its subsidiaries, SMDC and Summerhills Home Development Corp. (SHDC). SM Prime's revenue from residential operations is derived largely from the sale of condominium units.

SMDC was incorporated in the Philippines in 1974 under the name Ayala Fund, Inc., renamed SM Fund Inc., and in May 1996, SM Fund, Inc. was renamed SM Development Corporation to reflect its new business thrust of property development, whose primary objective is to pursue opportunities in the real estate industry. SMDC's subsidiaries are namely SM Synergy Properties Holdings, Corp., SM Residences Corp, Landfactors Incorporated, Vancouver Lands, Inc., Twenty Two Forty One Properties, Inc., Guadix Land Corporation, Lascona Land Company, Inc., Metro South Davao Properties Corporation, Union-Madison Realty Company, Inc., 102 E De Los Santos Realty Co. Inc., SM Property Management Inc., SMDC HK Limited, SMDC International (USA), Inc., SMDC International (UK) Ltd and SMDC International (Italy) SRL.

In 2014, residential business unit has twenty five residential projects in the market, twenty three of which are in Metro Manila and two in Tagaytay. For the year 2015, SM Prime's residential business unit will be launching five new projects and six expansions of existing towers all in Metro Manila, except Cool Suites @ Wind Residences in Tagaytay.

SHDC was incorporated in the Philippines on September 13, 2007. SHDC is primarily engaged in real estate development and sale of residential units.

SM Prime, through its subsidiary HPI, owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas. HPI develops and sells residential properties located at a private and exclusive mountainside resort called Tagaytay Highlands.

In addition, SM Prime, through CDHI, is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline. Pico de Loro is located in a 40-hectare valley within Hamilo Coast situated near mountains and a protected cove. The completed projects include the four-condominium cluster project, Jacana, Myna, Miranda and Carola, as well as club shares of Pico de Loro Beach and Country Club. The Pico Sands Hotel is also located on the Pico de Loro property. CDHI was incorporated in the Philippines on September 26, 2006.

## **Commercial**

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

SM Prime's flagship project is the MOA Complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor tenant and main attraction, among other commercial, business, and entertainment establishments within the estate. A major attraction in the complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building that houses additional parking spaces as well as office levels. The MOA complex is also the site of SM Prime's signature business complex, the E-com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO companies and shipping companies. Other similar office building developments catering to the BPO industry include the SM Cyber Buildings, a mix of build-to-suit and ready-to-use office spaces in Makati City,



Quezon City, and soon in other emerging locations. SM Prime is also involved in the leasing and management of properties and buildings housing selected branches of SM Retail operations, such as its department stores and supermarkets, including the warehouses that support these various retail operations. SM Prime also manages the MOA complex.

In 2014, commercial business unit has completed commercial properties namely, Cyber West, a 15-level office building located at the corner of EDSA and West Avenue, Quezon City.

SM Prime's commercial business unit is currently constructing Three E-com Center scheduled for opening in 2016. Five E-com Center is targeted for completion by the first quarter of 2015.

PMI, 60% owned by SM Prime, was incorporated on June 1, 1995. PMI converted the concentration of its business operations from wholesale/retail of food and non-food articles to leasing.

SM Arena Complex Corporation (SMACC) was incorporated on March 15, 2012 to primarily engage in and carry on the business to manage the operations of Mall of Asia Arena, a five-story first class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events.

### **Hotels and Convention Centers**

SM Prime's hotels and convention centers business unit is operated through SM Hotels and Conventions Corp. (SMHCC), formerly SM Hotels Corp., which was incorporated in March 2008. The primary purpose of SMHCC is to develop and manage the various hotel and convention center properties of SM Prime. In addition, SMHCC is assessing the feasibility of establishing additional conference centers, in conjunction with its mid-market hotels, by using existing land bank situated around SM Prime's existing malls.

Park Inn by Radisson Davao, which is the very first "Park Inn by Radisson" in Asia Pacific region, started its operations in March 2013. The Park Inn brand for hotels under Carlson Rezidor and is the largest mid-market brand for hotels under development in Europe. Second Park Inn by Radisson located adjacent to SM City Clark in Pampanga is scheduled to open in the last quarter of 2015 with 155 rooms.

In 2013, SMHCC together with Hilton Worldwide signed an agreement to manage the first Conrad Hotel in the Philippines. The 347-room *Conrad Hotel Manila* will be located within the Mall of Asia Complex with stunning views of the famed Manila Bay. The eight-storey hotel will incorporate two levels of retail and entertainment facilities on the ground floor. It will also have other hotel facilities as well as a 1,446-square meter ballroom and other function and meeting spaces. Conrad Hotel Manila is scheduled for completion by last quarter of 2015.

As of December 31, 2014, the SMHCC portfolio is composed of four hotels located in Tagaytay City, Batangas, Cebu City and Davao City and four convention centers with over 35,715 sq. m. located in Pasay City, Taguig City, Davao City and Bacolod City.

### **Financial Services**

**BDO Unibank, Inc.** ("BDO"), is a full-service universal bank in the Philippines. It is the product of a merger heralded as unprecedented in size and scale in the Philippine banking industry. BDO today represents a firm consolidation of distinct strengths and advantages built over the years by the entities behind its history. BDO is an institution that honors its past, continues to improve on its present, and moves towards the future with confidence and strength.

BDO has the ability to provide a complete array of industry-leading products and services including Lending (corporate, middle market, SME, and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management and Remittances in the Philippines. Through its local subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Bancassurance, Insurance Brokerage and Stock Brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with 875 operating branches, 30 international offices, and over 2,500 ATMs nationwide.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of 31 December 2014, BDO is the country's largest bank in terms of total resources, capital, customer loans, total deposits, and assets under management.

**The China Banking Corporation** (China Bank), was incorporated on July 20, 1920 and commenced business on August 16 of the same year as the first privately owned local commercial bank in the Philippines. It resumed operations after World War II on July 23, 1945 and played a key role in the post-war reconstruction and economic recovery by providing financial support to businesses and entrepreneurs. China Bank (CHIB) was listed by 1947 on the local stock exchange and acquired its universal banking license in 1991. The Bank started by catering mainly to the Chinese-Filipino commercial sector, but has since expanded its market scope to include the retail and consumer segments. Its core banking franchise stems mainly from its 94-year history in the Philippines, a factor that has enabled it to become deeply entrenched within the socioeconomic fabric of the Chinese-Filipino community. The Bank's market comprises the corporate, commercial and consumer markets. It provides a wide range of domestic and international banking services, and is one of the largest commercial banks in the country in terms of assets and capital.

China Bank offers a wide range of financial products and services through its network of 470 branches (including 78 branches of China Bank Savings and 78 branches of Plantersbank) as of Dec 2014. Complementing this branch network are convenient and secure electronic banking channels for day & night banking service – China Bank TellerCard ATM, China Bank Online (mobile and internet banking), and China Bank TellerPhone (phone banking).

2014 marked several corporate milestones for China Bank such as its P8 billion stock rights offer, the P1.86 billion acquisition of Plantersbank, the increase in ownership stake from 5% to 40% in the bancassurance joint venture Manulife China Bank Life Assurance Corp. (MCBLife). China Bank was PSE Bell Awardee for the third year in a row, the highest citation given by the Philippine Stock Exchange to Top 5 listed companies and trading participants with exemplary corporate governance practices. The Bank was also named Asia's Outstanding Company on Corporate Governance by Corporate Governance Asia, the most authoritative quarterly magazine on corporate governance in Asia. China Bank was also among the 50 highest scoring publicly listed companies cited in the ASEAN Corporate Governance Scorecard Country Reports and Assessments 2013-2014.

In addition, Fitch Ratings affirmed CBC's national rating of AA- which is one notch below the top bank rating in the country. Capital Intelligence rating agency also affirmed its credit rating on China Bank (Financial Strength BBB-) and recently upgraded its Foreign Currency Long-Term rating to BBB- from BB- and short-term foreign currency rating to A3 from B.

For 2015, the Bank will focus on acquiring customers, deepening relationships, and becoming the best bank for its customers. The Bank will continue to maximize value from network expansion to reach broader retail and consumer segments by setting up branches in strategic locations. It will solidify its presence in all market segments by strengthening product and service capabilities for Top 1000 corporations and fast-growing commercial clients. To diversify and expand fee-based businesses, the Bank plans to broaden the menu of offshore investment outlets, provide “family office” services and tap the next generation of clients. With the expected integration of Planters Development Bank (PDB) with China Bank Savings by the first quarter of 2015, the Bank will create a bigger business footprint with better access to commercial and consumer segments. To achieve this, the savings bank will focus on cementing relationships with “rising affluent SMEs, market merchants, store owners, retailers, and suppliers. It will intensify marketing of end-user home financing, auto & personal loans. The Bank will continue to improve operational efficiency and technology processes with the upgrading of the core banking system as the centerpiece of its technology plans.

### **Others**

**Belle Corporation** ("Belle") was incorporated in 1973 as Belle Mining and Oil Exploration, Incorporated (“Belle Resources”) and, in 1976, was listed on the Philippine Stock Exchange. In 1989, Belle Resources developed a golf club named Tagaytay Highlands International Golf Club, Incorporated (“Tagaytay Highlands”), which became its initial foray into the property development sector. In 1994, Belle Resources changed its name to Belle Corporation to underscore the shift in its principal activity of real estate development. Belle mainly develops property within the Tagaytay Highlands, Midlands and Greenlands complex (“Complex”), a 1,280-hectare property that provides excellent views of Taal lake, Laguna de Bay and the towering mountains of Batangas and Laguna. The Complex is located less than 90 minutes south of Makati City in Tagaytay City and adjoining areas in Batangas province.

Since 1989, Belle has launched a total of 19 real estate projects, two golf clubs and one country club, with total gross land area of approximately 600 hectares in Tagaytay City and Batangas.

In 2009, the Belle entered into a Memorandum of Agreement with SM Commercial Properties and its related companies, for Belle’s acquisition of all the outstanding capital stock of Premium Leisure & Amusement, Inc. (“PLAI”). PLAI and its consortium members were granted a license by the Philippine Amusement and Gaming Corporation, to develop and operate an integrated resort complex. This marked the Company’s strategic entry into the integrated resort industry. The construction of the integrated resort began in January 2010 on 6.2-hectares of prime land at the corner of Roxas Boulevard and Aseana Avenue in Parañaque City only about 1 kilometer away from the Mall of Asia complex, and is almost complete as of the end of 2014. In 2012, Belle and PLAI entered into a Cooperation Agreement with Melco Crown Entertainment Limited (“MCE”) of Hong Kong for a collaborative partnership in the development and operation of the integrated resort. MCE is a developer and operator of resorts focused on the Macau market, with its flagship property therein being the successful “City of Dreams” integrated resort complex. The Cooperation Agreement places Belle as the licensee and owner of the site’s land and buildings, with MCE being the developer and operator of all facilities within the integrated resort, which has been named City of Dreams Manila. The integrated resort has approximately 30 hectares of gross floor area, and will house approximately 2 hectares of gaming areas, more than 2 hectares of retail and restaurant facilities, entertainment facilities and more than 900 hotel rooms of 4-star, 5-star and 6-star quality. City of Dreams Manila had its soft opening on December 14, 2014 and is planned for a grand opening during the first quarter of 2015.

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

Through its wholly-owned subsidiary Carmen Copper Corporation (“Carmen Copper”), it operates the Toledo copper mine in the province of Cebu.

The Toledo Copper Mine is one of the Philippines’ largest copper mines, thus making Carmen Copper a principal producer and exporter of copper concentrate in the country.

To optimize its operations, and in line with the expansion of its beneficiation plant, Carmen Copper is pursuing the development and commercial distribution of marketable by-products from its copper concentrate processing such as molybdenum, magnetite, and pyrite. It has recently expanded its nameplate capacity from 40,000 tonnes per day to 60,000 tonnes per day.

Atlas Mining also has a 25% stake in the nickel laterite mining project of Berong Nickel Corporation (“Berong Nickel”) in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

**The Net Group** includes ten legal entities namely, 19-1 Property Holdings Inc., Crescent Park 19-1 Property Holdings Inc., 18-2 Property Holdings Inc., Crescent Park 18-2 Property Holdings Inc., 6-3 Property Holdings Inc., Crescent Park 6-3 Property Holdings Inc., 6-24 Property Holdings, Inc., Crescent Park 6-24 Property Holdings Inc., 14-678 Property Holdings Inc., and Crescent Park 14-678 Property Holdings, Inc. The portfolio assets are strategically located within the E-square Zone, the largest and only PEZA certified IT park in Bonifacio Global City.

The Portfolio consists of prime Grade A Philippine Economic Zone Authority (PEZA) registered office buildings and land. The gross lot areas is 13,300 square meters while the gross leasable area is 147,000 square meters more or less. The occupancy rate as of December 31, 2014 is at 100%. Its tenants base includes top tier local and multinational companies.

### **Competition**

The Company’s subsidiaries compete with other local companies in the industry segments in which they operate. The Company believes that each of its subsidiaries has strong competitive advantages over the other industry players. In addition, the strong synergy created by the complementing businesses of the individual subsidiaries has further reinforced each subsidiary’s preparedness to face stiff competition in the coming years.

### **Suppliers**

The Company and its subsidiaries have a broad range of suppliers, both local and foreign.

### **Customers / Clients**

The Company and its subsidiaries are not dependent on a single or a few customer / client base. The group has a broad base of local and foreign, and corporate and individual customers / clients.

### **Transactions With and/or Dependence on Related Parties**

All transactions with related companies are done on market terms and arm’s length basis. See Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements.

## **Governmental regulations and environmental laws**

The Company and its subsidiaries meet all governmental, environment, health and safety requirements. The Company has not experienced significant governmental, environment, health or safety problems.

## **Employees**

As of December 31, 2014, the Group had about 92,888 direct employees. The Parent Company had 289 regular employees as of the same period. The Parent Company employees are not subject to any Collective Bargaining Agreements (CBA).

## **Risks**

SMIC and its subsidiaries are exposed to financial, operating, and administrative risks which are normal in the course of the business, depending on the business industry segments where each of the subsidiaries operate.

The Board of Directors of the Parent Company and its subsidiaries are assisted by their respective Audit and Risk Management Committees in overseeing the effectiveness of the Enterprise Risk Management System to mitigate, if not to eliminate these risks. The Audit and Risk Management Committee is likewise supported by the Parent Company's external and internal auditors in its oversight role in managing these risks.

## **ITEM 2. Properties**

The Company and its subsidiaries own and lease several tracts of land for shopping malls, commercial, residential and other development.

Leased properties intended for future development have lease terms ranging from 15 to 50 years. Some contracts provide for renewal options subject to mutual agreement of the parties. Rental rates are based on prevailing market rental rates for the said properties. Please refer to Note 28 of the accompanying Notes to the Consolidated Financial Statements for further details on Lease agreements. Other real properties that the Company intends to acquire are still under review depending on factors such as demographics and accessibility to public transport.

## **ITEM 3. Legal Proceedings**

The Company and its subsidiaries are not involved in any discussion of legal proceedings.

## **ITEM 4. Submission of Matters to a Vote of Security Holders**

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

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### Market Information

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

	<b>2014</b>				<b>2013</b>			
Stock Prices		<u>High</u>		<u>Low</u>		<u>High</u>		<u>Low</u>
1 <sup>st</sup> Quarter	₱	724.0	₱	680.0	₱	892.0	₱	720.0
2 <sup>nd</sup> Quarter		832.0		717.5		962.4		728.0
3rd Quarter		826.5		770.0		961.5		634.0
4 <sup>th</sup> Quarter		820.5		752.5		863.0		695.0

As of February 28, 2015, the closing price of the Company's shares of stock is ₱880/share.

#### Shareholder and Dividend Information

The number of shareholders of record of February 28, 2015 was 1,235. Capital stock issued and outstanding as of February 28, 2015 was 798,856,971. As of December 31, 2014, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P137.8 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

On April 30, 2014, the BOD approved the declaration of cash dividends of 103.4% of the par value or P10.34 per share for a total amount of P8,233.5 million in favor of stockholders on record as at May 30, 2014. This was paid on June 26, 2014.

On April 25, 2013, the BOD approved the declaration of cash dividends of 118.0% of the par value or 11.80 per share for a total amount of P7,423.0 million in favor of stockholders on record as at May 24, 2013. This was paid on June 20, 2013.

On the same date, the BOD approved the declaration of 25% stock dividends in favor of stockholders on record to be fixed by the Philippine SEC.

On June 24, 2013 and July 12, 2013, SEC approved the issuance of 157,000,000 and 629,986 shares as stock dividends to stockholders on record as of July 8, 2013. The stock dividends were issued on August 1, 2013.

The top 20 stockholders as of February 28, 2015 are as follows:

	<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
1	PCD Nominee Corp. (Non-Filipino)	279,330,616	34.97%
2	Hans T. Sy	65,969,521	8.26%
3	Herbert T. Sy	65,960,450	8.26%
4	PCD Nominee Corp. (Filipino)	63,617,276	7.96%
5	Harley T. Sy	58,528,292	7.33%
6	Henry T. Sy, Jr.	58,460,450	7.32%
7	Teresita T. Sy	57,085,450	7.14%

	<b><u>Name</u></b>	<b><u>No. of Shares Held</u></b>	<b><u>% to Total</u></b>
8	Elizabeth T. Sy	46,722,988	5.85%
9	Syntrix Holdings, Inc.	31,250,000	3.91%
10	Felicidad T. Sy	25,730,173	3.22%
11	Sysmart Corporation	19,283,830	2.41%
12	Henry Sy Foundation, Inc.	15,000,000	1.88%
13	Felicidad T. Sy Foundation, Inc.	7,500,000	0.94%
14	Henry Sy, Sr.	3,182,550	0.40%
15	Susana Fong	301,999	0.04%
16	Value Plus, Inc.	101,413	0.01%
17	SM Prime Holdings, Inc.	97,403	0.01%
18	Alberto S. Yao	52,135	0.01%
19	Belle Corporation	32,585	0.00%
20	Hector Yap Dimacali	26,068	0.00%

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

- (1) On June 10, 2014, SMIC issued US\$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US\$1.749 million.
- (2) On October 17, 2012, SMIC issued US\$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$2.5 million.
- (3) On February 15, 2012, SMIC issued a US\$250.0 million Convertible Bonds due on February 15, 2017. The Convertible Bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10(g) of R.A. No. 8799. The lead underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$3.125 million.
- (4) On September 26, 2011, the Company issued corporate notes comprised of 7-year notes (Series A) and 10-year notes (Series B) amounting to P916.0 million and P4,084.0 million, respectively. Series A and Series B notes will mature on September 26, 2018 and September 26, 2021, respectively, and bear fixed interest rate of 5.75% and 6.625% per annum, respectively. Interests in arrears are payable semi-annually starting March 26, 2012. The corporate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Section 10 (1) of RA 8799. The arrangers are BDO Capital, First Metro Investment Corporation and Hongkong Shanghai Banking Corporation and the total arrangers fees amounted to P18.8 million. The Series A and B Notes were pre-terminated on April 16, 2013.

- (5) On February 7, 2011, the Company issued fixed rate notes amounting to P7,000.0 million which bear a fixed interest rate of 6.165% per annum, payable semi-annually. The fixed rate notes will mature on February 8, 2016. The fixed rate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Section 10 (1) of RA 8799. The arrangers are ING Bank, BPI Capital Corporation, Allied Banking Corporation, First Metro Investment Corporation, RCBC Capital Corporation and United Coconut Planters Bank and the total arrangers fees amounted to P24.1 million. This was pre-terminated on March 7, 2013.
- (6) On October 13, 2010, SMIC issued US\$400 million bonds which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears. The bonds will mature on October 13, 2017. Of this amount, US\$82.9 million and US\$130.8 million were exchanged from the existing US\$350 million 6.75% bonds due 2013 and US\$500 million 6.00% bonds due 2014, respectively. The balance of US\$186.3 million represents the new money component. The bonds, which were listed in the Singapore Stock Exchange, are considered as exempt pursuant to Section 10 (1) of RA No. 8799. The underwriters are Citi, HSBC and BDO and the total underwriting fees and expenses amounted to US\$1.7 million.
- (7) On September 22, 2009, SMIC issued US\$500.0 million bonds which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds, which were listed in Singapore Stock Exchange, are considered as exempt security pursuant to Section 10 (1) of RA No. 8799. The underwriters are Barclays Capital and Citi and the total underwriting fees and expenses amounted to US\$2.1 million. The bonds matured on September 22, 2014.
- (8) On July 17, 2008, SMIC issued a US\$350.0 million 6.75% bonds due on July 18, 2013. The Bonds, which were listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10(1) of R.A. No. 8799. The sole underwriter is UBS and the total underwriting fees and expenses amounted to US\$1.5 million. The Bonds matured on July 18, 2013.

Please refer to Note 20 of the 2014 consolidated financial statements for the details of the Company's fixed rate bonds.

There are no existing or planned stock options/ stock warrant offerings.



## ITEM 6. Management's Discussion and Analysis or Plan of Operation

Calendar Year Ended December 31, 2014 and 2013

### Results of Operation

(amounts in billion pesos)

Accounts	12 / 31 / 2014	12 / 31 / 2013	% Change
<b>Revenue</b>	<b>P 275.7</b>	<b>P 253.3</b>	<b>8.9%</b>
Cost and Expenses	223.5	202.0	10.7%
<b>Income from Operations</b>	<b>52.2</b>	<b>51.3</b>	<b>1.8%</b>
Other Income (Charges)	(5.7)	(7.7)	(24.9%)
Provision for Income Tax	7.6	5.4	39.7%
Minority Interest	10.5	10.8	(2.8%)
<b>Net Income Attributable to Equity Holders of the Parent</b>	<b>P 28.4</b>	<b>P 27.4</b>	<b>3.5%</b>

SM Investments Corporation and Subsidiaries (the Group) reported a Net Income Attributable to Equity Holders of the Parent of P28.4 billion and Revenues of P275.7 billion in 2014. This represents a 3.5% increase in Net Income Attributable to Equity Holders of the Parent and 8.9% growth in Revenues.

Income from Operations increased by 1.8% to P52.2 billion from P51.3 billion in 2013. Operating Margin and Net Margin is at 18.9% and 10.3%, respectively.

Merchandise Sales, which grew by 9.0% from P180.9 billion in 2013, accounts for 71.5% or P197.1 billion of the total revenues in 2014. The increase is attributable to the opening of the following new stores in 2014:

	SM Department Stores	SM Supermarkets	SaveMore Stores	SM Hypermarkets
1	SM Cauayan	Cauayan	SaveMore Nunez	Daet
2	SM Mega Center	-	SaveMore San Pedro	Sun
3	-	-	SaveMore Sta. Cruz	Rosario
4	-	-	SaveMore Candon	-
5	-	-	SaveMore Francis Market	-
6	-	-	SaveMore Agora Lucena	-
7	-	-	SaveMore Solano 2	-
8	-	-	SaveMore Tumauni	-
9	-	-	SaveMore Cyberwest	-
10	-	-	SaveMore San Nicolas	-
11	-	-	SaveMore Camiling	-
12	-	-	SaveMore Guagua	-
13	-	-	SaveMore Angono 2	-

	<b><i>SM Department Stores</i></b>	<b><i>SM Supermarkets</i></b>	<b><i>SaveMore Stores</i></b>	<b><i>SM Hypermarkets</i></b>
14	-	-	SaveMore Bayombong	-
15	-	-	SaveMore Santiago 2	-
16	-	-	SaveMore Roxas Isabela	-
17	-	-	SaveMore Tacloban	-
18	-	-	SaveMore Calumpang Gensan	-
19	-	-	SaveMore Fortune Town	-
20	-	-	SaveMore San Fernando Pampanga	-
21	-	-	SaveMore Cabiao	-
22	-	-	SaveMore Francis Market	-

The *Non-Food* and *Food Group* comprised 40% and 60%, respectively, of merchandise sales in 2014 and 41% and 59%, respectively, of merchandise sales in 2013.

As of December 31, 2014, *SM Retail* had 269 stores nationwide, namely: 50 *SM Stores*, 40 *SM Supermarkets*, 113 *SaveMore* stores, 42 *SM Hypermarkets* and 24 *WalterMart* stores.

*Real Estate Sales* increased by 6.5% to P22.6 billion from P21.2 billion in 2013 due to higher construction accomplishments of projects and increase in number of units sold in Grace Residences in Taguig, Shell Residences and Breeze Residences in Pasay, Green Residences in Manila, and Grass Residences Phase2 and Trees Residences in Quezon City.

*Real Estate Gross Margin* improved from 42.4% in 2013 to 44.6% in 2014. This is attributable to efficient management and the reigning-in of construction costs.

*Rent Revenues*, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 17.6% to P32.8 billion from P27.9 billion in 2013. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013 and 2014, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province, as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong and *SM Center Angono* in Rizal province. The expanded mall gross floor area is now 6.5 million square meters, an increase of 0.3 million square meters from yearend 2013. Excluding the new malls and expansions, same-store rental growth is at 7%.

As of December 31, 2014, *SM Prime* had 50 malls in the Philippines and 5 malls in China.

*Cinema Ticket Sales* and *Amusement Revenues* increased by 16.7% to P5.8 billion from P4.9 billion in 2013 due to the opening of additional digital cinemas in the new/expanded malls and the showing of international and local blockbuster movies. Strong patronage of amusement rides and additional recreational facilities also contributed to the increase.

*Equity in Net Earnings of Associates and Joint Ventures* decreased by 2.8% to P13.2 billion from P13.6 billion in 2013. This is attributable mainly to *BDO's* exceptional trading gains in early 2013.

*Gain on Sale of Available-for-sale Investments and Fair Value Changes on Investments Held for Trading-net* decreased by 63.5% to P0.05 billion in 2014 from P0.14 billion in 2013 due primarily to the gain on sale of available-for-sale investments in 2013.

*Dividend Income* decreased by 32.6% to P0.6 billion in 2014 from P0.9 billion in 2013 due to decrease in dividends received from certain investees.

*Management and Service Fees* remained at P1.4 billion in 2014 and 2013.

*Other Revenues*, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues slightly decreased by 7.7% to 2.1 billion in 2014 from P2.2 billion in 2013.

*Operating Expenses* increased by 17.7% to P60.1 billion from P51.0 billion in 2013 due mainly to additional operating expenses associated with the construction of new, and/or, expansion of malls, new retail stores, store renovations and current real estate projects.

*Other Charges (net)* decreased by 24.9% to P5.7 billion from P7.6 billion in 2013. *Interest Expense* increased by 6.3% to P11.6 billion from P10.9 billion in 2013 due mainly to loan availments during the year. *Interest Income* decreased by 18.2% to P3.0 billion from P3.7 billion in 2013 due to lower average balance of temporary investments. *Gain on disposal of investments and properties – net* increased by 426.9% to P2.9 billion from P0.5 billion in 2013 resulting mainly from the sale of the Group's 2% stake in BDO. *Loss on Fair Value Changes on Derivatives* decreased by 81.0% to P0.2 billion from P1.0 billion in 2013. This fair value change pertains mainly to the US\$250.0 million convertible bonds of SMIC. *Foreign Exchange Gain and Others* increased by 201.4% to P179.1 million from P59.4 million in 2013. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.40 : USD1.00 in 2013 to PHP44.72 : USD1.00 in 2014.

*Provision for Income Tax* increased by 39.7% to P7.6 billion from P5.4 billion in 2013 resulting mainly from the SM Property group restructuring transaction in 2013, higher taxable income in 2014 as well as expiration of certain income tax holiday incentives on certain residential projects of *SM Prime* in 2014. The effective income tax rate is 16.3% in 2014 and 12.4% in 2013.

*Non-controlling interest* decreased by 2.8% to P10.5 billion in 2014 from P10.8 billion in 2013.

**Financial Position**  
(amounts in billion pesos)

Accounts	12 / 31 / 2014	12 / 31 / 2013	% Change
Current assets	P 186.0	P 162.9	14.2%
Noncurrent assets	525.9	470.1	11.9%
<b>Total assets</b>	<b>P 711.9</b>	<b>P 633.0</b>	<b>12.5%</b>
Current liabilities	P 96.6	P 132.1	-26.8%
Noncurrent Liabilities	265.3	200.7	32.2%
<b>Total Liabilities</b>	<b>361.9</b>	<b>332.8</b>	<b>8.8%</b>
<b>Stockholders' Equity</b>	<b>350.0</b>	<b>300.2</b>	<b>16.6%</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>P 711.9</b>	<b>P 633.0</b>	<b>12.5%</b>

Total *Assets* increased by 12.5% to P711.9 billion from P633.0 billion in 2013. Likewise, total *Liabilities* increased by 8.8% to P361.9 billion from P332.8 billion in 2013.

*Current Assets*

*Current Assets* increased by 14.2% to P186.0 billion from P162.9 billion in 2013.

*Cash and Cash Equivalents* increased by 37.7% to P69.1 billion from P50.2 billion in 2013. The increase represents the loan proceeds from availments and share sale proceeds from SM Prime's top-up placement in 2014.

*Time Deposits and Short-term Investments* decreased by 68.9% to P9.0 billion from P28.9 billion in 2013 due to maturity of certain Short-term deposits, a portion of which was used to pay off maturing bonds and/or reinvested in Long-term time deposits.

*Investments Held for Trading and Sale* increased by 274.5% to P4.2 billion from P1.1 billion in 2013 due mainly to new available-for-sale (AFS) investments and reclassification of maturing noncurrent AFS investments.

*Receivables* increased by 16.4% to P31.0 billion from P26.6 billion in 2013 due mainly to the P3.8 billion increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units as well as new sales for the period and P0.6 billion increase in *Receivable from Tenants*.

*Merchandise Inventories* increased by 12.5% to P14.9 billion from P13.2 billion in 2013. The increase is mainly attributable to the Food Group.

*Other Current Assets* increased by 35.0% to P57.8 billion from P42.8 billion in 2013 due mainly to the receivable resulting from the sale of the Group's 2% stake in BDO.

*Noncurrent Assets*

*Noncurrent Assets* increased by 11.9% to P525.9 billion from P470.1 billion in 2013.

*AFS Investments* increased by 16.4% to P19.2 billion from P16.5 billion in 2013 due mainly to increase in market value of certain AFS investments and new AFS investments.

*Investments in Shares of Stock of Associates and Joint Ventures* increased by 4.7% to P145.5 billion from P139.0 billion in 2013 mainly due to the 12-month *Equity in Net Earnings of Associates and Joint Ventures*, net of *Dividend Income* received from these associates and sale of 2% stake in BDO.

*Time Deposits* increased by 74.0% to P47.1 billion from P27.1 billion in 2013 due mainly to the reinvestment of matured deposits from short-term to long-term.

*Property and Equipment* increased by 8.6% to P19.9 billion from P18.3 billion in 2013 due mainly from new stores in 2014.

*Investment Properties* increased by 15.0% to P221.4 billion from P192.6 billion in 2013. The increase mainly represents mall-related investments in land and buildings located in Cebu City, Cabanatuan, and San Mateo in the Philippines and Zibo and Tianjin in China; landbanking; and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-com and Conrad Hotel Manila.

*Land and Development* slightly increased by 3.8% to P26.6 billion from P25.7 billion in 2013 due mainly to reclassification of certain *Land and Development* project costs from noncurrent to current.

*Deferred Tax Assets* slightly increased by 5.6% to P2.3 billion from P2.2 billion in 2013 due to higher NOLCO from *SM Prime*.

*Other Noncurrent Assets* decreased by 24.4% to P21.5 billion from P28.4 billion in 2013. The decrease mainly represents the reclassification of deposits for land acquisitions to current portion of Land and development and reclassification of a portion of the receivable from real estate buyers to current.

#### *Current Liabilities*

*Current Liabilities* decreased by 26.8% to P96.6 billion from P132.1 billion in 2013 due mainly to net payments in 2014.

*Bank Loans* decreased by 49.6% to P13.9 billion from P27.6 billion in 2013.

*Current Portion of Long-term Debt* decreased by 68.1% to P11.0 billion from P34.6 billion in 2013.

*Accounts Payable and Other Current Liabilities* increased by 2.6% to P69.9 billion from P68.1 billion in 2013.

*Dividends Payable* increased by 26.0% to P0.3 billion from P0.2 billion in 2013. This mainly represents dividends due to minority stockholders of certain subsidiaries.

*Income Tax Payable* remained at P1.6 billion in 2014 and 2013.

#### *Noncurrent Liabilities*

*Noncurrent Liabilities* increased by 32.2% to P265.3 billion from P200.7 billion in 2013.

*Long-term Debt - Net of Current Portion* increased by 34.8% to P236.8 billion from P175.6 billion to in 2013 due mainly to SMIC and SMPHI's bond issuances and loan availments in 2014 obtained to fund capital expenditures and for working capital requirements.

*Tenants' Deposits and Others* increased by 20.3% to P21.6 billion from P18.0 billion in 2013. The increase is coming mainly from *SM Prime* and the *Net Group* relating to their leasable spaces.

*Deferred Tax Liabilities* decreased by 1.5% to P6.9 billion from P7.0 billion in 2013.

*Noncurrent Derivative Liability* decreased by 63.3% to P0.1 billion from P0.2 billion in 2013 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

#### Equity

Total *Equity* increased by 16.6% to P350.0 billion from P300.2 billion in 2013.

*Equity Attributable to Owners of the Parent* increased by 17.1% P257.0 billion from P219.4 billion in 2013. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 24.5% to P72.0 billion from P57.8 billion in 2013 due mainly to the recognition of *Equity Reserve* arising from the US\$400 million top-up placement of SM Prime in November 2014 (b) *Net Unrealized Gain on AFS Investments* which increased by 39.1% to P10.2 billion from P7.3 billion in 2013 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Equity Adjustments from Common Control Transactions* which decreased by P0.7 billion relative to the adjustment in valuation for the acquisition of a subsidiary, and (d) *Remeasurement loss on defined benefit asset/obligation* which decreased by P0.07 billion as a result of valuation of the Group's retirement plan. These are partially offset by the 29.7% decrease in *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso from P1.2 billion to P0.9 billion in 2014.

*Non-controlling Interests* increased by 15.0% to P92.9 billion from P80.8 billion in 2013 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

## Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2014 and 2013:

Accounts	12 / 31/ 2014	12 / 31/ 2013
Current Ratio	1.9	1.2
Asset to Equity	2.0	2.1
Debt-equity Ratios:		
On Gross Basis	50 : 50	52 : 48
On Net Basis	34 : 66	37 : 63
Revenue Growth	8.9%	13.1%
Net Income to Revenues	10.3%	10.8%
Net Income Growth	3.5%	11.2%
Return on Equity	12.0%	13.0%
EBITDA ( <i>In Billions of Pesos</i> )	P63.1B	P60.8B
Interest Rate Coverage	5.4x	5.6x

*Current Ratio* improved to 1.9 from 1.2 in 2013 due mainly to increase in *Current Assets* of 14.2% coupled with a decrease in *Current Liabilities* of 26.8%.

Asset to equity ratio slightly decreased to 2.0 from 2.1 in 2013.

Gross debt-equity ratio decreased to 50:50 from 52:48 in 2013 due to lower increase in gross debts of 10.1% from P237.7 billion to P261.7 billion in 2014 compared to a 17.1% increase in equity base from P219.4 billion to P257.0 billion in 2014.

Net debt-equity ratio decreased to 34:66 from 37:63 in 2013 due to lower increase in net debts of 4.1% from P126.5 billion to P131.6 billion in 2014.

Revenue growth decreased to 8.9% in 2014 due mainly to the 2013 exceptional trading gains of the Group's bank associates, partially offset by the increase in merchandise and real estate sales, rent, and cinema ticket sales and amusement in 2014.

Net income growth decreased to 3.5% in 2014 due mainly to the 2013 exceptional trading gains of the Group's bank associates.

Return on equity decreased to 12.0% from 13.0% in 2013 due mainly to slower net income growth and higher equity growth in 2014.

EBITDA increased by 3.8% to P63.1 billion from P60.8 billion in 2013.

Interest Rate Coverage minimally changed to 5.4x from 5.6x in 2013 due to higher increase in interest expense of 6.2% compared to an EBITDA increase of 3.8%.

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

1. Current Ratio  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Asset to Equity Ratio  $\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$
3. Debt – Equity Ratio
  - a. Gross Basis  $\frac{\text{Total Interest Bearing Debt less Pledged time deposits}}{\text{Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt less Pledged time deposits}}$
  - b. Net Basis  $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale}}$
4. Revenue Growth  $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
5. Net Income to Revenue  $\frac{\text{Net Income Attributable to Equity Holders of the Parent}}{\text{Total Revenues}}$
6. Net Income Growth  $\frac{\text{Net Income Attributable to Equity Holders of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Equity Holders of the Parent (Prior Period)}}$
7. Return on Equity  $\frac{\text{Net Income Attributable to Equity Holders of the Parent}}{\text{Average Equity Attributable to Equity Holders of the Parent}}$
8. EBITDA Income from Operations + Depreciation & Amortization
9. Interest Rate Coverage  $\frac{\text{EBITDA}}{\text{Interest Expense}}$



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

### **Malls**

In 2015, SM Prime will open four new malls located in Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as expansion of SM City Iloilo and SM City Lipa. By yearend, SM Prime will have 53 malls in the Philippines and 6 in China with an estimated 7.8 million square meters of gross floor area.

### **Residential**

In 2015, SMDC plans to launch over 5 new projects and 6 expansions of existing towers in Metro Manila and in Tagaytay that will yield around 20,000 additional condominium units.

### **Commercial**

SM Prime is currently constructing Three E-com Center scheduled for opening in 2016. Five E-com Center is targeted for completion in the first quarter of 2015.

### **Hotels and Convention Centers**

Park Inn by Radisson in Clark, Pampanga and Conral Hotel Manila in the Mall of Asia Complex in Pasay are expected to open in the last quarter of 2015.

The Property Group's land banking initiatives will continue in 2015.

The Retail Group will be opening 3 department stores, 3 supermarkets, 17 SaveMore stores and 2 hypermarkets.

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

## Calendar Year Ended December 31, 2013 and 2012

### Results of Operation

(amounts in billion pesos)

Accounts	12 / 31 / 2013	12 / 31 / 2012	% Change
<b>Revenue</b>	<b>P 253.3</b>	<b>P 223.8</b>	<b>13.1%</b>
Cost and Expenses	202.0	177.0	14.1%
<b>Income from Operations</b>	<b>P 51.3</b>	<b>P 46.8</b>	<b>9.4%</b>
Other Income (Charges)	(7.7)	(5.9)	28.6%
Provision for Income Tax	5.4	6.5	(17.2%)
Minority Interest	10.8	9.7	11.0%
<b>Net Income Attributable to Equity Holders of the Parent</b>	<b>P 27.4</b>	<b>P 24.7</b>	<b>11.2%</b>

Consolidated revenues grew by 13.1% to P253.3 billion, as against last year's P223.8 billion. Income from operations increased by 9.4% to P51.3 billion from last year's P46.8 billion. Operating income margin and net profit margin is at 20.2% and 10.8%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2013 increased by 11.2% to P27.4 billion compared to P24.7 billion of the same period last year.

Retail Sales accounts for 71.4% or P180.9 billion of the total revenues for the year. Consolidated Retail sales grew by 13.8% from P158.9 billion to P180.9 billion for the year ended December 31, 2013. The increase is attributable to the acquisition of Walter Mart stores in 2013 as well as the opening of the following new stores in 2013:

	<i><b>SM Department Stores</b></i>	<i><b>SM Supermarkets</b></i>	<i><b>SaveMore Stores</b></i>	<i><b>SM Hypermarkets</b></i>
1	SM Aura	Aura	SaveMore Zabarte	Jazz
2	SM BF Parañaque	BF Parañaque	SaveMore Bajada Plaza	FTI
3	-	-	SaveMore Parola Cainta	-
4	-	-	SaveMore TM Centerpoint	-
5	-	-	SaveMore Acacia	-
6	-	-	SaveMore Project 8	-
7	-	-	SaveMore Sta. Maria Ilocos	-
8	-	-	SaveMore ARCC Bacoar	-
9	-	-	SaveMore Pili	-
10	-	-	SaveMore San Ildefonso	-
11	-	-	SaveMore Marulas	-
12	-	-	SaveMore Free Choice	-
13	-	-	SaveMore Star J	-

	<i><b>SM Department Stores</b></i>	<i><b>SM Supermarkets</b></i>	<i><b>SaveMore Stores</b></i>	<i><b>SM Hypermarkets</b></i>
14	-	-	SaveMore Lumina	-
15	-	-	SaveMore Meridien	-

Of the P180.9 billion and P158.9 billion retail sales in 2013 and 2012, respectively, the non-food group and food group contributed 40.6% and 59.4%, respectively in 2013 and 43.8% and 56.2%, respectively in 2012.

As of December 31, 2013, SM Investments' retail subsidiaries have 241 stores. These consist of 48 department stores, 39 supermarkets, 93 SaveMore stores, 39 hypermarkets and 22 Walter Mart supermarkets.

Real estate sales for the year ended December 31, 2013, derived mainly from SM Development Corporation, amounted to P21.2 billion or a decrease of 5.6% compared to last year of P22.5 billion. The decrease in real estate sales is primarily due to lower sales take up of projects in 2013 compared to last year. This is attributable to project launches in 2010 and 2011 which were more "blockbusters" namely, Shell, Green and Jazz compared to launches in 2012 of Breeze and Grace. Projects launched in the last quarter of 2013, namely: Grass Phase 2, Shore and Trees are expected to contribute significantly to revenues starting in 2014.

Rent revenue for the year ended December 31, 2013, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.1% to P27.9 billion in 2013 from P24.7 billion in 2012. SM Prime is the country's leading shopping mall developer and operator which owns 48 malls in the Philippines with a total gross floor area of 6.2 million square meters and five malls in China with a total gross floor area of 0.8 million square meters as of December 31, 2013. The increase in rental revenues is primarily due to the full-year effect of new malls opened in 2012 namely SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier, and the opening in 2013 of SM Aura Premier. Excluding the new malls and expansions, rental revenues grew 7.0%. The full year recognition of revenues from TwoE-Com, which began operations in mid-2012 and is now 98% occupied, also helped push up rental revenues from commercial operations.

For the year 2013, cinema ticket sales and amusement revenues increased by 2.5% to P4.9 billion in 2013 from P4.8 billion in 2012 largely due to the opening of additional digital cinemas at the new malls, opening of new amusement rides in SM by the Bay and the Sky Ranch in Tagaytay. Amusement revenues is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 50.4% to P13.6 billion in 2013 from P9.0 billion in 2012, primarily due to the 56% increase in net income of BDO to P22.6 billion, in an environment marked by high system liquidity and volatility in the capital markets. BDO's primary commercial banking businesses continued its robust growth with net interest income leading the way with a 20% rise, customer loans expanding 19% and an upsurge of 44% on total deposits led by steady growth in low-cost deposits as well as the inflow of maturing Special Deposit Accounts (SDA) funds from the Bangko Sentral ng Pilipinas (BSP). Further, non-interest income increased by 30% on the double digit expansion in both fee based income and trading and foreign exchange gains. BDO's continued branch expansion enabled it to keep cost of funds tempered with low cost deposits growing over 20%. With the Philippine economy expected to sustain its growth momentum in 2014, BDO is fully equipped to realize the promising growth opportunities in its customer segments by capitalizing on its established business franchise and wide distribution network.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading increased to P0.1 billion in 2013 from P0.002 billion in 2012 primarily due to the gain on sale of available-for-sale investments of the Group in 2013.

Dividend income increased by P0.3 billion or 40.6% in 2013 to P0.9 billion from P0.6 billion in 2012 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by P0.3 billion or 29.2% from P1.1 billion in 2012 to P1.4 billion in 2013 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues remained at P2.2 billion in 2013 and 2012.

Total cost and expenses went up by 14.1% to P202.0 billion for the year ended December 31, 2013 compared to 2012. Retail cost of sales increased by 17.7% from P117.9 billion to P138.7 billion mainly due to the increase in retail sales. Real estate cost of sales decreased by 13.3% from P14.1 billion to P12.2 billion due primarily to lower recognized real estate costs in line with lower recognized real estate sales in 2013 and tighter cost controls during project engineering and stricter monitoring of project costs which resulted to improved gross margins. Selling, general and administrative expenses increased by 13.5% from P45.0 billion in 2012 to P51.0 billion in 2013. The increase is primarily associated with mall expansions, new malls, department stores, supermarkets, hypermarkets, SaveMore and Walter Mart stores, as well as store renovations and current real estate projects.

Other charges of P7.7 billion in 2013 increased by 28.6% or P1.8 billion from last year's P5.9 billion. Gain on disposal of investments and properties decreased by 58.0% to P0.5 billion in 2013 from P1.3 billion in 2012 due mainly to the deferred gain on Belle-PLAI share swap that was realized in 2012. Gain (loss) on fair value changes on derivatives decreased by 28.9% to P1.0 billion in 2013 from P1.4 billion in 2012 resulting mainly from the fair value changes of the embedded derivatives related to the US\$250.0 million convertible bonds of SMIC in 2013 (refer to Note 20 of the consolidated financial statements). Interest expense increased by 1.2% or P0.1 billion to P10.9 billion in 2013 from P10.8 billion in 2012. Interest income decreased by 16.0% to P3.7 billion in 2013 from P4.4 billion in 2012 due mainly from the decrease in interest rates and lower average balance of temporary investments in 2013 compared to 2012. Foreign exchange gains decreased by 89.5% from P0.6 billion in 2012 to P0.1 billion in 2013 due mainly to the increase in foreign exchange rate to P44.395:US\$1.00 in 2013 from P41.05:US\$1.00 in 2012.

Provision for income tax decreased by 17.2% to P5.4 billion for the year 2013 from P6.5 billion in 2012 resulting mainly from the SM Property group restructuring transaction.

Non-controlling interests increased by 11.0% to P10.8 billion in 2013 from P9.7 billion in 2012 due to the increase in net income of certain subsidiaries.

**Financial Position**  
(amounts in billion pesos)

Accounts	12 / 31 / 2013	12 / 31 / 2012	% Change
Current assets	P 162.9	P 145.9	11.7%
Noncurrent assets	470.1	415.9	13.0%
<b>Total assets</b>	<b>P 633.0</b>	<b>P 561.8</b>	<b>12.7%</b>
Current liabilities	P 132.1	P 105.1	25.7%
Noncurrent Liabilities	200.7	195.1	2.9%
<b>Total Liabilities</b>	<b>332.8</b>	<b>300.2</b>	<b>10.9%</b>
<b>Total Equity</b>	<b>300.2</b>	<b>261.6</b>	<b>14.8%</b>
<b>Total Liabilities and Equity</b>	<b>P 633.0</b>	<b>P 561.8</b>	<b>12.7%</b>

On the Balance Sheet side, consolidated total assets as of December 31, 2013 amounted to P633.0 billion, higher by 12.7% from P561.8 billion in the previous year. On the other hand, consolidated total liabilities grew by 10.9% to P332.8 billion in 2013 from P300.2 billion in the previous year.

Total current assets increased by 11.7% to P162.9 billion as of December 31, 2013 from P145.9 billion as of last year. Cash and cash equivalents decreased by 17.3% to P50.2 billion in 2013 from P60.7 billion in 2012 while Time deposits and Short term investments decreased by 0.6% to P28.9 billion in 2013 from P29.1 billion in 2012 due mainly to payment of bank loans, capital expenditures and new investments. Investments held for trading and sale decreased by 60.8% to P1.1 billion in 2013 from P2.9 billion in 2012 due to maturity of certain investments in bonds. Receivables increased by 62.8% to P26.6 billion from P16.4 billion due primarily to increase in Receivable from tenants and real estate buyers. Other current assets increased by 82.6% to P42.8 billion in 2013 from P23.4 billion in 2012 resulting mainly from the reclassification to current from noncurrent of ongoing land and development projects of the property group and increase in condominium units for sale, input tax and other prepayments.

Total consolidated noncurrent assets amounted to P470.1 billion as of December 31, 2013, an increase of 13.0% from last year's P415.9 billion. Investments in shares of stock of associates and joint venture increased by 8.2% or P10.6 billion to P139.0 billion from P128.4 billion due mainly to additional investments in associates and joint venture and equity share in bank's net income. The increase in Investment properties and Property and equipment by 28.4% or P42.6 billion and 6.6% or P1.1 billion, respectively, arose from new mall constructions and new store openings. Deferred tax assets increased by 238.4% to P2.2 billion in 2013 from P0.6 billion in 2012 resulting mainly from the SM Property Group restructuring transaction. Other noncurrent assets increased by 2.5% to P28.4 billion from P27.8 billion while Intangibles increased by 31.9% to P20.2 billion from P15.4 billion resulting mainly from goodwill recognized from business combinations. These were partially offset by the decrease in Available-for-sale investments by 2.4% and by the decrease in Land and development by P4.5 billion or 15% to P25.7 billion in 2013 from P30.2 billion in 2012 due mainly from the reclassification of ongoing projects to current portion. The 8.0% or P2.4 billion decrease in Time deposits represents reclassification to current portion of maturing time deposits.

Total current liabilities increased by 25.7% to P132.1 billion as of December 31, 2013 mainly due to increase in accounts payable and other current liabilities by 17.7% to P68.1 billion in 2013 from P57.9 billion in 2012 mainly arising from trade transactions, payables to mall and residential contractors and suppliers related to ongoing projects and accrued operating expenses. Bank loans decreased by 13.2% or P4.2 billion to P27.6 billion in 2013 from P31.8 billion in 2012 due to settlement of loans. See Note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 9.4% to P1.6 billion in 2013 from P1.5 billion in 2012 due mainly to higher taxable income in 2013. The 149.4% or P20.7 billion increase in Current portion of long-term debt is due mainly to the reclassification from Long-term debt of loans which will mature in 2014. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. The 116.1% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total noncurrent liabilities increased by 2.9% or P5.6 billion to P200.7 billion in 2013 from P195.1 billion in 2012. Long-term debt – net of current portion increased by P1.1 billion or 0.6% to P175.6 billion in 2013 from P174.5 billion in 2012. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. Noncurrent derivative liability decreased by P0.08 billion to P0.16 billion in 2013 from P0.24 billion 2012 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans. The P2.4 billion or 53.4% increase in Deferred tax liabilities arose from capitalized borrowing costs, unrealized gross profit on sale of real estate, fair value gain on investment property, unrealized foreign exchange gains and accrued rental income. Tenants' deposits and others increased by 14.1% to P18.0 billion in 2013 from P15.7 billion in 2012 due mainly to new malls and expansions and new condominium projects of the real estate group.

Total equity amounted to P300.2 billion as of December 31, 2013, while total Equity attributable to owners of the parent amounted to P219.4 billion. Additional paid-in capital increased by P14.9 billion or 34.9% to P57.8 billion in 2013 from P42.9 billion in 2012 due mainly to the conversion of US\$ bonds to SMIC shares amounting to P8.4 billion and top-up placement amounting to P6.4 billion. The P0.3 billion increase in Equity adjustments from business combination under common control resulted from the SM Property Group restructuring transaction. The P0.97 billion increase in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine Peso and from unrealized mark-to-market gains on cross currency swap transactions designated as a cash flow hedge. Cost of common shares held by a subsidiary decreased to P0.02 billion from P0.12 billion due mainly to the disposal by subsidiaries of parent common shares during the year. The P4.4 billion decrease in Net unrealized gain on available-for-sale investments resulted from the decrease in the market value of AFS investments of bank associates. The P0.2 billion Remeasurement loss on defined benefit asset/obligation is the result of the valuation of the Group's retirement plan. Non-controlling interest increased by 9.8% to P80.8 billion in 2013 from P73.6 billion in 2012 due mainly to increase in net assets of certain subsidiaries. See Note 21 to the audited consolidated financial statements for further discussion regarding Equity.

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

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

## Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2013 and 2012:

Accounts	12 / 31/ 2013	12 / 31/ 2012
Current Ratio	1.23	1.39
Asset to Equity	2.11	2.15
Debt-equity Ratios:		
On Gross Basis	52 : 48	54 : 46
On Net Basis	37 : 63	33 : 67
Return on Equity	13.5%	14.3%
Net Income to Revenue	10.8%	11.0%
Revenue Growth	13.1%	12.0%
Net Income Growth	11.2%	16.3%
EBITDA ( <i>In Billions of Pesos</i> )	P60.8B	P54.9B
Interest Coverage Ratio	5.2x	5.5x

The current ratio decreased to 1.23 in 2013 from 1.39 in 2012 due to higher increase in current liabilities of 25.7% as compared to increase in current assets of 11.7%. The asset to equity ratio decreased slightly to 2.11 in 2013 from 2.15 in 2012 due to higher increase in Equity of 14.8% as compared to increase in Total Assets of 12.7%. (See Managements' Discussion and Analysis of Financial Condition).

The debt-equity ratio on gross basis decreased to 52:48 in 2013 from 54:46 in 2012 due mainly to increase in equity resulting mainly from conversion of US\$ bonds to SMIC shares and the US\$150 million top-up placement. On a net basis, the debt-equity ratio increased to 37:63 as some loans were used for capital expansions, investments, and general corporate purposes.

Revenue growth in 2013 is at 13.1% due primarily to growth in retail sales, rental and equity in net earnings of associates.

Return on equity decreased by 80 basis points due primarily to higher percentage increase in average equity of 17.9% compared to growth in net income of 11.2%.

Net income to revenue decreased slightly from 11.0% to 10.8%.

EBITDA improved by P5.9 billion while Interest Coverage Ratio minimally changed to 5.2x in 2013 from 5.5x in 2012 due to higher increase in interest paid of 17.0% as compared to increase in EBITDA of 10.7%.

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

1. Current Ratio  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Asset to Equity Ratio  $\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$
3. Debt – Equity Ratio
  - a. Gross Basis  $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt}}$
  - b. Net Basis  $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale}}$
4. Return on Equity  $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
5. Net Income to Revenue  $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Total Revenue}}$
6. Revenue Growth  $\frac{\text{Total Revenue (Current Period)} - 1}{\text{Total Revenue (Prior Period)}}$
7. Net Income Growth  $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
8. EBITDA Income from operations + Depreciation & Amortization
9. Interest Coverage Ratio  $\frac{\text{EBITDA}}{\text{Interest Paid}}$



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

For 2014, SM Prime will open three new malls, located in Cauayan and Angono in the Philippines and Zibo in China, as well as expansion of four existing malls. By year end, SM Prime will have an estimated 7.5 million square meters of gross floor area.

In 2014, SMDC plans to launch over five new and expansion projects that will yield around 10,600 condominium units.

In the last quarter of 2015, SM Hotels will be opening Park Inn by Radisson in Pampanga. This is the second Park Inn Hotel to be managed by Carlson Rezidor. This 150-room hotel is located within the Clarkfield Air Base in Pampanga. In addition, construction of the 347-room Conrad Hotel in the Mall of Asia Complex will be continuing in 2014. This is the first Conrad Hotel in the Philippines and it will be managed by Hilton Worldwide. Conrad Hotel Manila is scheduled to start operations in the last quarter of 2015.

The Property Group's land banking initiatives will continue in 2014.

The Retail Group will be opening one department store, one supermarket, fifteen SaveMore branches and three hypermarkets.

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

## Calendar Year Ended December 31, 2012 and 2011

### Results of Operation (amounts in billion pesos)

Accounts	12 / 31 / 2012	12 / 31 / 2011	% Change
<b>Revenue</b>	<b>P 223.8</b>	<b>P 199.9</b>	<b>12.0%</b>
Cost and Expenses	177.0	162.9	8.7%
<b>Income from Operations</b>	<b>P 46.8</b>	<b>P 37.0</b>	<b>26.6%</b>
Other Income (Charges)	(5.9)	(1.3)	346.5%
Provision for Income Tax	6.5	5.5	19.1%
Minority Interest	9.7	9.0	8.4%
<b>Net Income Attributable to Equity Holders of the Parent</b>	<b>P 24.7</b>	<b>P 21.2</b>	<b>16.3%</b>

Consolidated revenues grew by 12.0% to P223.8 billion, as against last year's P199.9 billion. Income from operations increased by 26.6% to P46.8 billion from last year's P37.0 billion. Operating income margin and Net profit margin is at 20.9% and 11.0%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2012 increased by 16.3% to P24.7 billion compared to P21.2 billion of the same period last year.

Retail Sales accounts for 71.0% or P158.9 billion of the total revenues for the year. Consolidated Retail sales grew by 7.2% from P148.2 billion to P158.9 billion for the year ended December 31, 2012 due mainly to the opening of the following new stores in 2012:

	<i><b>SM Department Stores</b></i>	<i><b>SM Supermarkets / SaveMore Stores</b></i>	<i><b>SM Hypermarkets</b></i>
1	Olongapo	Consolacion Cebu	Alabang, Zapote Road Las Piñas *
2	Consolacion Cebu	San Fernando Pampanga	East Service Road Muntinlupa *
3	San Fernando Pampanga	General Santos	Monumento Caloocan City
4	General Santos	Lanang Davao	Cainta Rizal *
5	Lanang Davao	SaveMore LGZ Silver Screen	Heroes' Hall Laoag Ilocos Norte
6	-	SaveMore Basak	Antipolo, City
7	-	SaveMore Nova Plaza	Cadiz Negros Occidental
8	-	SaveMore Bangkal	-
9	-	SaveMore Sorsogon	-
10	-	SaveMore Baclaran	-
11	-	SaveMore Malinta	-
12	-	SaveMore San Jose	-
13	-	SaveMore Parian	-
14	-	SaveMore Camarin	-
15	-	SaveMore Avenida	-
16	-	SaveMore LB Centro	-
17	-	SaveMore Sta. Rosa	-
18	-	SaveMore Maribago	-

	<b>SM Department Stores</b>	<b>SM Supermarkets / SaveMore Stores</b>	<b>SM Hypermarkets</b>
19	-	SaveMore MD Fuente	-
20	-	SaveMore Talisay	-
21	-	SaveMore Kawit	-
22	-	SaveMore Santiago	-

*\* These were formerly Makro stores which were converted into Hypermarket stores*

Excluding the full year sales of Makro in 2011, the retail sales growth would be 9.3% from P145.4 billion in 2011 to P158.9 billion in 2012. Of the 2012 total retail sales, the non-food group, which is composed of SM Department stores, contributed 43.8% or P69.6 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores and SM Hypermarkets contributed 56.2% or P89.3 billion.

As of December 31, 2012, SM Investments' retail subsidiaries have 202 stores. These consist of 46 department stores, 37 supermarkets, 82 SaveMore stores and 37 hypermarkets.

Real estate sales for the year ended December 31, 2012, derived mainly from condominium projects of SMDC, grew by 30.7% to P22.5 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2012 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 19 residential projects as of December 31, 2012. In 2012, SMDC introduced in the real estate market Breeze Residences in Pasay City and Grace Residences in Taguig City. For the whole of 2012, SMDC pre-sold 12,614 residential condominium units worth approximately P31.7 billion. Compared to the same period in 2011, the number of units pre-sold increased by 8%.

The other ongoing projects of SMDC are the following: Grass Residences beside SM City North Edsa; Field Residences in Sucat, Paranaque; Princeton Residences along Aurora Boulevard in Quezon City; Jazz Residences near Jupiter Road in Makati City; Sun Residences right beside the Mabuhay (formerly Welcome) Rotunda near Quezon Avenue; Light Residences near Pioneer Street in Mandaluyong; Wind Residences along the Emilio Aguinaldo Highway in Tagaytay City; Blue Residences, which is located at Loyola Heights in Quezon City; M Place South Triangle in Panay Avenue, Quezon City; Mezza II Residences in Sta. Mesa Quezon City; Rose Residences in Pasig City; Green Residences along Taft Avenue, Manila; Shell Residences near Mall of Asia Complex in Pasay City; Breeze Residences in Roxas Boulevard, Pasay City; and Grace Residences in Taguig City. Currently, SMDC has five fully completed projects namely Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City; Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; Sea Residences near the Mall of Asia Complex in Pasay City and Lindenwood Residences, a residential subdivision in Muntinlupa City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

Rent revenue for the year ended December 31, 2012, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 18.5% to P24.7 billion in 2012 from P20.8 billion in 2011. SM Prime is the country's leading shopping mall developer and operator which owns 46 malls in the Philippines and five malls in China as of December 31, 2012. The increase in rental revenues is largely due to rentals from new SM Supermalls which opened in 2011 and 2012, namely SM City Masinag, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM

City General Santos and SM Lanang Premier, with a total gross floor area of 527,000 square meters. Excluding the new malls and expansions, same store rental growth is at 8.0%.

The four malls in China contributed P2.5 billion in 2012 and P2.0 billion in 2011, or 10.4% and 9.9%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 24.4% in 2012 compared to the same period in 2011 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. SM Chongqing, the fifth mall in China, opened in December 2012 with a gross floor area of 149,000 square meters. Average occupancy rate for the four malls is now at 92%.

For the year 2012, cinema ticket sales and amusement revenues increased by 16.6% to P4.8 billion in 2012 from P4.1 billion in 2011 largely due to more blockbuster movies both local and international, conversion of all screens to digital and roll-out of cinema turnstile system which made the cinema viewing experience more convenient for customers that altogether led to an increase in foot traffic. Amusement revenues is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 40.9% to P9.0 billion in 2012 from P6.4 billion in 2011, primarily due to the increase in the net income of BDO which is attributed to the bank's robust expansion in its lending, deposit-taking, and fee-based businesses. Net interest income was up 7.1% even as volume growth was offset by the impact of regulatory changes and excess system liquidity. Total non-interest income rose 18% contributed substantially by trading gains from treasury activities. BDO was able to capitalize on market opportunities and realize exceptional gains from its investment portfolio. With the Philippine economy expected to sustain its growth momentum, BDO looks forward to tapping the promising growth opportunities in customer segments, capitalizing on its established business franchise and wide distribution network.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading decreased by 95.4% to P0.002 billion in 2012 from P0.04 billion in 2011 primarily due to the gain on sale of available-for-sale investments of certain subsidiaries in 2011.

Dividend income increased by P0.2 billion or 70.3% in 2012 to P0.6 billion from P0.4 billion in 2011 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by P0.2B or 26.3% from P0.9 billion in 2011 to P1.1 billion in 2012 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, increased by P0.3 billion or 18.8% from P1.8 billion in 2011 to P2.2 billion in 2012.

Total cost and expenses went up by 8.7% to P177.0 billion for the year ended December 31, 2012 compared to 2011. Retail cost of sales increased by 5.1% from P112.2 billion to P117.9 billion while real estate cost of sales and others increased by 37.3% from P10.3 billion to P14.1 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 11.3% from P40.4 billion in 2011 to P45.0 billion in 2012. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to P39.5 billion in 2012 which accounts for 88% of total selling, general and administrative expenses for the year ended December 31, 2012. The increase is primarily

associated with new malls, department stores, supermarkets, savemore, hypermarkets and residential projects.

Other charges of P5.9 billion in 2012 increased by 346.5% or P4.6 billion from last year's other charges of P1.3 billion. Gain on disposal of investments and properties decreased by 50.4% to P1.3 billion in 2012 from P2.6 billion in 2011 due mainly to the gain on Belle-PLAI share swap in 2011 of P1.5 billion (net of minority interest). Gain (loss) on fair value changes on derivatives decreased by 483.3% to loss of P1.4 billion in 2012 from gain of P0.4 billion in 2011 resulting mainly from the fair value changes of the embedded derivatives related to the US\$250.0 million convertible bonds of SMIC in 2012 (refer to Note 19 of the consolidated financial statements). Interest expense increased by 22.4% or P2.0 billion to P10.8 billion in 2012 from P8.8 billion in 2011 due mainly to new loans availed of in 2012 (refer to Note 19 of the consolidated financial statements). These were offset by the increase in interest income by 3.3% to P4.4 billion in 2012 from P4.3 billion in 2011 and increase in foreign exchange gains by 132.7% from P0.2 billion in 2011 to P0.6 billion in 2012 due mainly to the decrease in foreign exchange rate from P43.93:US\$1.00 in 2011 to P41.05:US\$1.00 in 2012.

Provision for income tax increased by 19.1% to P6.5 billion for the year 2012 from P5.5 billion in 2011 due mainly to the increase in taxable income.

Minority interest increased by 8.4% to P9.7 billion in 2012 from P9.0 billion in 2011 due to the increase in net income of certain subsidiaries.

### **Financial Position** (amounts in billion pesos)

<b>Accounts</b>	<b>12 / 31 / 2012</b>	<b>12 / 31 / 2011</b>	<b>% Change</b>
Current assets	P 145.9	P 101.3	44.1%
Noncurrent assets	415.9	347.8	19.6%
<b>Total assets</b>	<b>P 561.8</b>	<b>P 449.1</b>	<b>25.1%</b>
Current liabilities	P 105.1	P 79.8	31.7%
Noncurrent Liabilities	195.1	147.0	32.7%
<b>Total Liabilities</b>	<b>300.2</b>	<b>226.8</b>	<b>32.4%</b>
<b>Total Equity</b>	<b>261.6</b>	<b>222.3</b>	<b>17.7%</b>
<b>Total Liabilities and Equity</b>	<b>P 561.8</b>	<b>P 449.1</b>	<b>25.1%</b>

On the Balance Sheet side, consolidated total assets as of December 31, 2012 amounted to P561.8 billion, higher by 25.1% from P449.1 billion in previous year. On the other hand, consolidated total liabilities grew by 32.4% to P300.2 billion in 2012 from P226.8 billion in previous year.

Total current assets increased by 44.1% to P145.9 billion as of December 31, 2012 from P101.3 billion as of last year. Cash and cash equivalents increased by 8.3% to P60.7 billion in 2012 from P56.1 billion in 2011 while Time deposits and short term investments increased by 3207.9% to P29.1 billion in 2012 from P0.9 billion in 2011 due mainly to proceeds from loan availments during the year and reclassification from noncurrent to current of time deposits which will mature in 2013. Receivables increased by 39.1% to P16.4 billion from P11.8 billion due primarily to increase in receivable from tenants and real estate buyers. Other current assets increased by 36.5% to P23.4 billion from P17.2 billion resulting mainly from condominium units for sale of the real estate group, prepaid taxes and other prepayments and nontrade receivables.

Total consolidated noncurrent assets amounted to P415.9 billion as of December 31, 2012, a growth of 19.6% from P347.8 billion as of December 31, 2011. Investments available for sale increased by 35.8% to P16.9 billion in 2012 from P12.4 billion in 2011 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 45.3% to P128.4 billion in 2012 from P88.4 billion in 2011 mainly due to additional investment in shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2012. The increase in investment properties, property and equipment and land and development by 14.2% or P18.7 billion, 13.9% or P2.1 billion and 31.2% or P7.2 billion, respectively, arose from new mall constructions, real estate developments and purchase of commercial lots in 2012. Other noncurrent assets increased by 15.3% to P27.8 billion from P24.1 billion mainly due to the non-current receivable from real estate buyers, deposits and advance rentals and non-current portion of advances for project development. These were partially offset by the decrease in deferred tax assets to P0.64 billion in 2012 from P0.69 billion in 2011 and decrease in time deposits by 21.3% to P29.4 billion in 2012 from P37.4 billion in 2011 due mainly from reclassification to current portion of maturing time deposits.

Total consolidated current liabilities increased by 31.7% to P105.1 billion as of December 31, 2012 mainly due to availment of bank loans which increased by 23.5% to P31.8 billion in 2012 from P25.7 billion in 2011 and increase in accounts payable and other current liabilities by 29.3% to P57.9 billion in 2012 from P44.7 billion in 2011 mainly arising from trade transactions, payable arising from acquisition of land, and current derivative liability. See note 17 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 10.7% to P1.5 billion in 2012 from P1.3 billion in 2011 due mainly to higher taxable income in 2012. The 75.0% or P5.9 billion increase in current portion of long-term debt is due mainly to the reclassification from Long-term debt of loans which will mature in 2013. See note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. The 278.6% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total Noncurrent Liabilities increased by P48.1 billion to P195.1 billion in 2012 from P147.0 billion in 2011. Long-term debt – net of current portion increased by P46.1 billion or 35.9% to P174.5 billion in 2012 from P128.5 billion in 2011 due mainly from bond issuances of SMIC and corporate notes issued by SMDC and SMPHI. See note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. Noncurrent derivative liability remained at P0.2 billion in 2012 and 2011. Defined benefit liability decreased by P0.05 billion or 63.0% to P0.03 billion from P0.08 billion in 2011. Tenants' deposits and others increased by 14.6% to P15.7 billion in 2012 from P13.7 billion in 2011 due mainly to new malls and expansions and new condominium projects of the real estate group.

Total equity amounted to P261.6 billion as of December 31, 2012, while total Equity attributable to equity holders of the parent amounted to P188.1 billion. The 37.6% or P0.1 billion decrease in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Cost of common shares held by a subsidiary decreased by 52.2% to P0.1 billion from P0.3 billion due mainly to the disposal by subsidiaries of parent common shares during the year. Minority interest increased by 13.8% to P73.6 billion in 2012 from P64.6 billion in 2011 due mainly to increase in net assets of certain subsidiaries. See Note 20 to the audited consolidated financial statements for further discussion regarding Equity.

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

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

### Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2012 and 2011:

Accounts	12 / 31/ 2012	12 / 31/ 2011
Current Ratio	1.39 : 1.00	1.27 : 1.00
Debt-equity Ratios:		
On Gross Basis	54% : 46%	51% : 49%
On Net Basis	33% : 67%	28% : 72%
Return on Equity	14.3%	14.2%
Net Income to Revenue	11.0%	10.6%
Revenue Growth	12.0%	13.0%
Net Income Growth	16.3%	15.1%
EBITDA ( <i>In Billions of Pesos</i> )	P54.9B	P44.2B

The current ratio increased to 1.39 : 1.00 in 2012 from 1.27 : 1.00 in 2011 due to higher increase of current assets of 44.1% as compared to current liabilities of 31.7% (See Managements' Discussion and Analysis of Financial Condition).

The debt-equity ratio on gross basis increased to 54%:46% in 2012 from 51%:49% in 2011 due mainly to the additional loans in 2012. On a net basis, the debt-equity ratio increased to 33%:67% as some loans were used for capital expansions, investments, and general corporate purposes.

In terms of profitability, the return on equity and net income to revenue slightly improved to 14.3% and 11.0%, respectively in 2012 as compared to 14.2% and 10.6%, respectively in 2011. Revenue growth decreased to 12.0% in 2012 from 13.0% in 2011 mainly attributed to higher % growth of retail and real estate sales in 2011 as compared to 2012.

Net income growth increased to 16.3% in 2012 from 15.1% in 2011 and EBITDA improved to P54.9 billion in 2012 from P44.2 billion in 2011 due mainly from the increase in revenues by 12.0% and lower growth of costs and expenses by 8.7% as compared to last year's 12.4%.

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

1. Current Ratio  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Debt – Equity Ratio
  - a. Gross Basis  $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent)} + \text{Total Interest Bearing Debt less Pledged time deposits}}$
  - b. Net Basis  $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Owners of the Parent)} + \text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale}}$
3. Return on Equity  $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
4. Net Income to Revenue  $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Total Revenue}}$
5. Revenue Growth  $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
6. Net Income Growth  $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
7. EBITDA  $\text{Income from operations} + \text{Depreciation \& Amortization}$



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

For 2013, SM Prime is scheduled to launch SM Aura Premier in Taguig and SM City Cauayan in Isabela. SM Megamall, on the other hand, will be expanded with an additional 100,000 square meters.

By year-end, SM Prime will have 48 malls in the Philippines and five in China with an estimated combined gross floor area of 6.7 million square meters.

Retail expansion plans for 2013 include the opening of two department stores, two supermarkets, 19 SaveMore branches and seven hypermarkets.

SMDC currently has 18 residential projects under its SM Residences brand and one project under the M Place brand. In order to sustain the growth momentum and to further expand the SMDC's presence in the industry, SMDC will continue to vigorously pursue its vision of uplifting the Filipino lifestyles by launching products that will meet the demand for affordable and high quality residential units in prime locations and will also pursue projects that will cater to the preferences and financial capacity of its target market. Innovation shall remain to be its strength while continuously focusing attention to changing market needs. The broadening and strengthening of its revenue base shall also be pursued as it moves forward.

For the year 2013, SMDC is targeting to launch at least three new projects in various cities within Metro Manila. In addition, it shall continue to search for viable locations in key cities in Metro Manila in response to the increasing demands for residences. SMDC shall be open to tapping various sources of financing to support its operational needs in real estate development.

The expansion plans of Costa del Hamilo include developing the Marina Village. It is envisioned to be a vibrant mixed-use community of prime residential lots, waterfront homes, retail and water sports facilities connected by a boardwalk that surrounds the Marina which will enhance Coastal Living in Hamilo Coast.

SM Hotels is currently developing Park Inn by Radisson Davao, which will be the very first "Park Inn by Radisson" in the Asia Pacific region. The Park Inn brand is one of the hotel brands under Carlson and is the largest mid-market brand for hotels under development in Europe. Park Inn by Radisson Davao hotel project is approximately a 204-room hotel located in Lanang, Davao City. The hotel is scheduled to open in the first quarter of 2013.

SM Hotel's subsidiary SMX Manila is to manage SM Prime's SMX Convention Center in Taguig, which is scheduled to open in April 2013.

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

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

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

## **ITEM 7. Financial Statements**

Please see the attached consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 1 – 114).

## **ITEM 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

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

### **Independent Public Accountants, External Audit Fees and Services**

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

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Ms. Belinda Beng Hui of SGV & Co. for the examination of the Company's financial statements for 2013 and 2014. Previously, the Company engaged Mr. Ramon D. Dizon, Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2008 to 2012, 2006 to 2007 and 2001 to 2005, respectively.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor were P1.9 million and P2.0 million for 2014 and 2013, respectively. The audit fees for 2015 is estimated to be at P2.1 million. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, and assistance in the preparation of annual income tax returns. Also, in 2014, SGV & Co. rendered other professional services relating to the bond issuances of SMIC and none in 2013. The professional fees amounted to P11.2 million in 2014 and nil in 2013. There were no other professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from other entities other than the external auditor.

The Audit and Risk Management Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the Committee's recommendation.

## PART III- CONTROL AND COMPENSATION INFORMATION

### ITEM 9. Directors and Executive Officers of the Registrant

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

<u>Office</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
Chairman	Henry Sy, Sr.	90	Filipino
Vice Chairman	Teresita T. Sy	64	Filipino
Vice Chairman	Henry T. Sy, Jr.	61	Filipino
Director and President	Harley T. Sy	55	Filipino
Director and Executive Vice President and CFO	Jose T. Sio	75	Filipino
Independent Director	Vicente S. Perez, Jr.	56	Filipino
Independent Director	Ah Doo Lim	65	Singaporean
Independent Director	Joseph R. Higdon	73	American
Treasurer	Grace F. Roque	64	Filipino
Senior Vice President - Legal, Alternate Compliance Officer and Asst. Corp. Sec	Marianne Malate-Guerrero	50	Filipino
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	59	Filipino
Senior Vice President - Finance	Franklin C. Gomez	45	Filipino
Senior Vice President - Taxes	Cecilia Reyes-Patricio	57	Filipino
Senior Vice President - Investor Relations	Corazon P. Guidote	54	Filipino
Senior Vice President - Investments Portfolio	Frederic C. DyBuncio	55	Filipino
Corporate Secretary	Elmer B. Serrano	47	Filipino

### MANAGEMENT

#### Board of Directors

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

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

**Henry Sy, Sr.**, is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman of SM Prime, SM Development, and Highlands Prime Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with five lines of businesses - shopping malls, retail, financial services, real estate development and tourism, hotels and conventions. He is likewise Chairman Emeritus of BDO Universal Bank, Inc. and Honorary Chairman of China Banking Corporation.

**Teresita T. Sy**, is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

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

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

**Jose T. Sio**, is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, and Atlas Consolidated Mining and Development Corporation. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at SyCip Gorres Velayo & Co. Mr. Sio was voted as CFO of the Year in 2009 by Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based business publications.

**Vicente S. Perez, Jr. \***, is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy, and Chairman of Merritt Partners. He was the youngest and longest serving Secretary of the Department of Energy. In 2001, he briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez also currently serves as an independent director of Double Dragon Properties Corp. and ST Telemedia. Mr. Perez is a member of the advisory boards of Coca-Cola FEMSA Phils., Pictet Clean Energy Fund, Roxas Holdings, and the Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

**Ah Doo Lim \***, a Singaporean, is an Independent Director of SMIC. He is currently a Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., Linc Energy Limited, and U Mobile Sdn Bhd. He is also a Director of Sateri Holdings Limited, a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

**Joseph R. Higdon\***, an American, is an Independent Director of SMIC. Until his retirement, he was a Senior Vice-President of Capital Research and Management Company, a United States investment company. He joined Capital Research in 1974 and worked there until 2006. He analyzed Philippine Stocks from 1989 until 2006. He was a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is also an Independent Director of International Container Terminal Services, Inc. and Security Bank Corporation. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

*\* Independent director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director.. The Company's*

*By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule*

#### Period of Directorship

<u>Name</u>	<u>Period Served</u>
Henry Sy, Sr.	1960 to present
Teresita T. Sy	1979 to present
Henry T. Sy, Jr.	1979 to present
Harley T. Sy	1993 to present
Jose T. Sio	2005 to present
Vicente S. Perez, Jr.	2005 to present
Ah Doo Lim	2008 to present
Joseph R. Higdon	2010 to present

#### **Directorships in Other Reporting Companies**

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

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Henry Sy, Sr.	SM Prime Holdings Inc.	Chairman Emeritus
	BDO Unibank, Inc.	Chairman Emeritus
	China Banking Corporation.	Honorary Chairman
Teresita T. Sy	BDO Unibank, Inc.	Chairperson
	SM Prime Holdings, Inc.	Adviser to the Board
	BDO Leasing and Finance Corp.	Chairperson
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman
Harley T. Sy	China Banking Corporation	Director
Jose T. Sio	China Banking Corporation	Director
	Belle Corporation	Director
	Atlas Consolidated Mining and Development Corporation	Director
	BDO Unibank Inc.	Adviser to the Board
	Premium Leisure Corporation	Adviser to the Board
Vicente S. Perez, Jr.	DoubleDragon Properties Corp.	Independent Director
Ah Doo Lim	Sembcorp Marine Ltd.	Director
	Sateri Holdings Limited	Director
	Linc Energy Limited	Director
	GP Industries Ltd.	Director
	ARA-CWT Trust Management (Cache) Ltd.	Director

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director
	Security Bank Corporation.	Independent Director

The following are the business experience/s of the members of the Board during the last five years:

**Elmer B. Serrano** is the Corporate Secretary of SMIC. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. He is also the Corporate Secretary of Crown Equities, Inc. and its subsidiaries, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., BDO Elite Savings Bank, Inc., Banco De Oro Savings Bank and Averon Holding Corporation. He was previously a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

**Marianne Malate-Guerrero** is Senior Vice President, Legal Department Head, Alternate Compliance Officer and Assistant Corporate Secretary of SMIC. She formerly worked as Senior Vice President and Legal Department Head of United Overseas Bank Philippines. Previous to that, she was Vice President and Legal Officer of Solidbank Corporation. She began her practice with the law firm of Castillo Laman Tan & Pantaleon Law office. She graduated from the Ateneo School of Law in 1988.

#### Period of Membership

<u>Name</u>	<u>Office</u>	<u>Period Served</u>
Elmer B. Serrano	Corporate Secretary	2014 to present
Marianne Malate-Guerrero	Senior Vice President - Legal, Alternate Compliance Officer and Asst. Corp. Secretary	2014 to present

Atty. Marianne M. Guerrero, Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim and Mr. Joseph Higdon are not related either by consanguinity or affinity, nor has any other professional / business dealings with each other.

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

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The same set of directors has been nominated in the coming regular annual stockholders' meeting. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC and its Implementing Rules and Regulations.

The procedure for nomination of directors shall be as follows:

- Nomination of Independent Directors shall be reviewed and passed upon by the Nomination Committee prior to the stockholders' meeting.
- The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of

Independent Directors and which list shall contain all the information about these nominees.

- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
- In case of resignation, disqualification or cessation of Independent Directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

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

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

### **Officers**

**Grace F. Roque** is the Treasurer of SMIC. She is also the Director of Metro Manila Shopping Mecca and of Mercantile Stores Group, Inc. She is also the Treasurer and Director of HFS Corporation, Mindanao Shoppers Daily Destination Corp., and SM Arena Complex Corp. She holds a Bachelor Degree in Economics from Maryknoll College and a Masters in Business Administration Degree from the University of the Philippines.

**Marianne Malate-Guerrero**, is Senior Vice President, Legal Department Head, Alternate Compliance Officer and Assistant Corporate Secretary of SMIC. She formerly worked as Senior Vice President and Legal Department Head of United Overseas Bank Philippines. Previous to that, she was Vice President and Legal Officer of Solidbank Corporation. She began her practice with the law firm of Castillo Laman Tan & Pantaleon Law office. She graduated from the Ateneo School of Law in 1988.

**Elizabeth Anne C. Uychaco**, is Senior Vice President, Corporate Services of SMIC. She is also a Board Director of Belle Corporation, Megawide Construction Corporation, Republic Glass Holdings Corp., Generali Pilipinas Holding Company, Inc., and Premium Leisure & Amusement, Inc. She was formerly Senior Vice President and Chief Marketing Officer of Philippine American Life Insurance Company and Board Director of Philam Call Center. Prior to that, she was Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

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

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

**Corazon P. Guidote** is Senior Vice President for Investor Relations of SMIC. She was formerly a Presidential Consultant for Investor Relations and Executive Director of the Investor Relations Office of the Republic of the Philippines. Prior to government service, she was a Director and Chief Operating Officer of ABN AMRO Asia Securities Philippines, Group Vice President for Corporate Communications and Investor Relations at Metro Pacific Corporation, and Managing Director of Citibank Securities, Philippines, Inc. and UBS Securities Phils., Inc. Ms. Guidote also served as Equities Research Head in Peregrine Securities, Inc., Barclays de Zoete Wedd (BZW), and Vickers da Costa. A Certified Public Accountant, Ms. Guidote is a Bachelor of Science graduate of the University of Santo Tomas. She holds a Masters degree in Applied Business Economics from the University of Asia and the Pacific and is a Chevening Fellow of the United Kingdom Foreign and Commonwealth Office. She is also a fellow at the Institute of Corporate Directors.

**Frederic C. DyBuncio** is Senior Vice President, Investments Portfolio of SMIC. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

#### Period of Officership

<u>Name</u>	<u>Office</u>	<u>Period Served</u>
Harley T. Sy	President	2005 to present
Jose T. Sio	Executive Vice President and Chief Financial Officer	2005 to present
Grace F. Roque	Treasurer and Senior Vice President	2010 to present
Marianne Malate-Guerrero	Senior Vice President - Legal, Alternate Compliance Officer and Asst. Corp. Secretary	2006 to present
Elizabeth Anne C. Uychaco	Senior Vice President - Corporate Services	2009 to present
Franklin C. Gomez	Senior Vice President - Finance	2013 to present
Cecilia Reyes-Patricio	Senior Vice President - Taxes	2010 to present
Corazon P. Guidote	Senior Vice President - Investor Relations	2011 to present



<u>Name</u>	<u>Office</u>	<u>Period Served</u>
Frederic C. DyBuncio	Senior Vice President - Investment Portfolio	2011 to present

#### Directorships in Other Reporting Companies

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

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Elizabeth Anne C. Uychaco	Belle Corporation	Director
	Megawide Construction Corporation	Director
	Republic Glass Holdings Corp.	Director
Frederic C. DyBuncio	Atlas Consolidated Mining and Development Corporation	Vice-Chairman
	APC Group, Inc.	President/CEO/Director
	Belle Corporation	President/CEO/Director
	Premium Leisure Corp.	President/CEO/Director
	Pacific Online Systems Corporation	Director

#### **Significant Employees**

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

#### **(b) Family Relationships**

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

#### **(c) Certain Relationships and Related Transactions**

There are no known related party transactions other than those described in Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements.

**(d) Involvement in Legal Proceedings**

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

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

**ITEM 10. Compensation of Directors and Executive Officers**

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

**Name and Position**

1. Harley T. Sy  
President\*
2. Jose T. Sio  
Executive Vice President & CFO\*
3. Elizabeth Anne C. Uychaco  
Senior Vice President – Corporate Services\*
4. Franklin C. Gomez  
Senior Vice President – Finance\*
5. Frederic C. Dybuncio  
Senior Vice President - Investment Portfolio\*

**Summary Compensation Table (in million pesos)**

		<b><u>Year</u></b>	<b><u>Salary</u></b>	<b><u>Bonus</u></b>	<b><u>Other Annual Compensation</u></b>
*CEO and four Most	2015 (estimate)		80	13	3
Highly Compensated	2014		69	12	3
Executive Officers	2013		51	8	2
All other Officers and	2015 (estimate)		156	26	6
Directors as a group	2014		136	23	6
unnamed	2013		142	23	6

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

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

# **ITEM 11. Security Ownership of Certain Record and Beneficial Owners as of February 28, 2015**

As of February 28, 2015, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent ( % )</b>
Common	Teresita T. Sy (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	57,085,450	7.14%
-do-	Harley T. Sy (Director and President) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	58,528,292	7.33%
-do-	Hans T. Sy (Stockholder of Issuer) No. 11 Harvard Road, Forbes Park, Makati City	Same as the Record Owner	Filipino	65,969,521	8.26%
-do-	Henry T. Sy, Jr. (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	58,460,450	7.32%
-do-	Herbert T. Sy (Stockholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	65,960,450	8.26%
-do-	Elizabeth T. Sy (Stockholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	46,722,988	5.85%
-do-	PCD Nominee Corp. (Filipino)	Various clients <sup>1</sup>	Filipino	63,617,276	7.96%
-do-	PCD Nominee Corp. (Non-Filipino)	Various clients <sup>1</sup>	Foreign	279,330,616	34.97%

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

## Security Ownership of Management as of February 28, 2015

<b>Title of Securities</b>	<b>Name of Beneficial Owner of Common Stock</b>	<b>Amount and Nature of Beneficial Ownership (D) direct / (I) indirect</b>		<b>Citizenship</b>	<b>Percent of Class</b>
Common	Henry Sy, Sr.	P 31,825,500	D	Filipino	0.40%
Common	Teresita T. Sy	570,854,500	D	Filipino	7.14%
Common	Harley T. Sy	585,282,920	D	Filipino	7.33%
Common	Henry T. Sy, Jr.	584,604,500	D	Filipino	7.32%
Common	Jose T. Sio	140	D	Filipino	0.00%
Common	Vicente S. Perez, Jr.	140	D	Filipino	0.00%
Common	Ah Doo Lim	1,250	D	Singaporean	0.00%
Common	Joseph R. Higdon	1,250	D	American	0.00%
Common	Grace F. Roque	0		Filipino	0.00%
Common	Marianne M. Guerrero	0		Filipino	0.00%
Common	Elizabeth Anne C. Uychaco	0		Filipino	0.00%
Common	Franklin C. Gomez	0		Filipino	0.00%
Common	Cecilia Reyes-Patricio	0		Filipino	0.00%
Common	Corazon P. Guidote	21,250	D	Filipino	0.00%
Common	Frederic C. DyBuncio	0		Filipino	0.00%
Common	Elmer B. Serrano	0		Filipino	0.00%
		P 1,772,591,450			22.19%

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

### (b) Change in Control

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

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

## ITEM 12. Certain Relationships and Related Transactions

Please refer to Item 1, Transactions With and/or Dependence on Related Parties, page 8.

## PART IV- CORPORATE GOVERNANCE

### ITEM 13. CORPORATE GOVERNANCE

SMIC's Board of Directors (the "Board") remains the driving force behind the company's corporate governance development. All directors and members of senior management have undergone training on corporate governance and continue to actively participate in continuing education programs. The Board is composed of eight (8) directors, three (3) of which are Non-Executive Independent Directors, namely, Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim and Mr. Joseph R. Higdon. As prescribed by the company's Manual on Corporate Governance (the "Manual"), an independent

director must be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. Furthermore, none of SMIC's independent directors have served the Company as a regular director, officer or employee. SMIC's independent directors provide balance at the board-level by ensuring impartial discussions during board meetings, monitoring and challenging the performance of Management, and by safeguarding the interests of the company's stakeholders.

The Manual and the Code of Ethics (the "Code") provide SMIC with the foundation needed to foster its corporate governance culture. The Manual institutionalizes the principles of good corporate governance throughout the organization. It lays down SMIC's compliance system and identifies the roles and responsibilities of the Board and management in relation to corporate governance. The Manual also provides the policies on disclosure and transparency, the conduct of communication and training programs on corporate governance, the rights and equitable treatment of stockholders, and the protection of SMIC's stakeholders. There have been no deviations from the Manual since its adoption.

The Code reflects SMIC's mission, vision, and values and serves as a guiding principle for SMIC's directors, officers, and employees in the performance of their duties and responsibilities. Primarily, the Code regulates the relationships and treatment that directors, officers, and employees should employ when dealing with customers, investors, creditors, contractors, supplies, regulators, the public, and the other various stakeholders of the company. To align with the Code, SMIC has adopted several supplemental policies, such as the Guidelines on Acceptance of Gifts, the Insider Trading Policy and the Policy on Accountability, Integrity and Vigilance (PAIV), to name a few. SMIC continues to keep pace with best practice in corporate governance through the continuous review and development of its policies and programs.

Since the establishment of its corporate governance culture, SMIC has been recipient to numerous awards and citations for its good governance programs and policies. The Asset, a multi-media entity that serves the Asian financial markets, has awarded SMIC with its prestigious Platinum Award for all-around excellence in management, financial performance, corporate governance, social and environmental responsibility and investor relations for five (5) consecutive years. Likewise, Corporate Governance Asia (CG Asia) a regional publication based in Hong Kong, has annually recognized SMIC as one of the best in corporate governance in the Philippines.

Through the collective efforts of its stakeholders; SMIC continues to develop its corporate governance practices to meet regional and global standards. Please see attached Annual Corporate Governance Report.

## **PART V- EXHIBITS AND SCHEDULES**

### **ITEM 14. Exhibits and Reports on SEC Form 17-C**

(a) Exhibits - See accompanying Index to Exhibits (page 51).

The following exhibit is filed as a separate section of this report:

(18) Subsidiaries of the Registrant

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

Reports on SEC Form 17-C (Current Report) have been filed during the last six months period covered by this report.

# INDEX TO EXHIBITS

## Form 17-A

<b>No.</b>		<b>Page No.</b>
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	*
(5)	Instruments Defining the Rights of Security Holders, Including Indentures	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, Form 11-Q or Quarterly Report to Security Holders	*
(13)	Letter re Change in Certifying Accountant	*
(16)	Report Furnished to Security Holders	*
(18)	Subsidiaries of the Registrant	52
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	*
(20)	Consent of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(29)	Additional Exhibits	*

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\* These Exhibits are either not applicable to the Company or require no answer.

## **EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT**

Please refer to *Note 2* of the accompanying Notes to the Consolidated Financial Statements for details.



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**FORM 17-A, ITEM 7**

<b>Consolidated Financial Statements</b>	<b><u>Page No.</u></b>
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Independent Auditors' Report	
Consolidated Balance Sheets as at December 31, 2014 and 2013	
Consolidated Statements of Income	
For the years ended December 31, 2014, 2013 and 2012	
Consolidated Statements of Comprehensive Income	
For the years ended December 31, 2014, 2013 and 2012	
Consolidated Statements of Changes in Stockholders' Equity	
For the years ended December 31, 2014, 2013 and 2012	
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For the years ended December 31, 2014, 2013 and 2012	
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*\*These schedules, which are required by SRC Rule 68.1, As Amended (2011), have been omitted because they are either not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.*

# COVER SHEET

SEC Registration Number

						1	6	3	4	2
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Company Name

S	M		I	N	V	E	S	T	M	E	N	T	S		C	O	R	P	O	R	A	T	I	O	N		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	,		O	n	e		E	-	C	o	m		C	e	n	t	e	r	,	
H	a	r	b	o	r		D	r	i	v	e	,		M	a	i	l		o	f		A	s	i	a		C	o	m
p	l	e	x	,		C	B	P	-	1	A	,		P	a	s	a	y		C	i	t	y		1	3	0	0	

Form Type

A	A	C	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

-
---

Company's Telephone Number/s

857-0100
----------

Mobile Number

-
---

No. of Stockholders

1,237
-------

Annual Meeting  
Month/Day

04/29
-------

Fiscal Year  
Month/Day

12/31
-------

## CONTACT PERSON INFORMATION

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

Name of Contact Person

Mr. Jose T. Sio
-----------------

Email Address

-
---

Telephone Number/s

857-0100
----------

Mobile Number

-
---

Contact Person's Address

10 <sup>th</sup> Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300
---

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

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


The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of SM Investments Corporation 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 examination.

  
**TERESITA T. SY**  
Vice Chairperson of the Board

  
**HARLEY T. SY**  
President

  
**JOSE T. SIO**  
Chief Financial Officer


Signed this 4th day of March 2015.

REPUBLIC OF THE PHILIPPINES )  
MAKATI CITY )

**SUBSCRIBED AND SWORN** to before this MAR 09 2015 at  
Makati City, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
TERESITA T. SY	EB0826424	August 25, 2010	Manila
HARLEY T. SY	EB4055697	November 12, 2011	Manila
JOSE T. SIO	EB5104390	April 11, 2012	Manila

DOC. No. 433  
PAGE No. 87  
BOOK No. XIV  
SERIES OF MS

  
**ARTHUR A. SY**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2015  
PTR NO. 4758714 / 01.08.15 / MAKATI CITY  
IBP LRN 548832 / 01.07.02 / PPLM  
TIN-174-674-196 ROLL NO. 40024

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
SM Investments Corporation  
10th Floor, One E-Com Center  
Harbor Drive, Mall of Asia Complex  
CBP-1A, Pasay City 1300

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

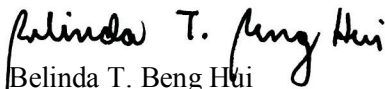
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),  
March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2012,  
June 19, 2012, valid until June 18, 2015

PTR No. 4751259, January 5, 2015, Makati City

March 4, 2015



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

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 7 and 29)	₱69,133,381	₱50,209,657
Time deposits and short-term investments (Notes 8 and 29)	9,000,324	28,912,650
Investments held for trading and sale (Notes 9 and 29)	4,190,449	1,118,980
Receivables (Notes 10, 29 and 30)	31,009,820	26,637,734
Merchandise inventories - at cost (Note 23)	14,882,200	13,232,308
Other current assets (Notes 11 and 29)	57,801,636	42,827,624
Total Current Assets	186,017,810	162,938,953
<b>Noncurrent Assets</b>		
Available-for-sale investments (Notes 12 and 29)	19,205,044	16,499,092
Investments in associates and joint ventures (Note 13)	145,476,174	138,994,366
Time deposits (Notes 8 and 29)	47,124,000	27,080,950
Property and equipment (Note 14)	19,903,014	18,323,380
Investment properties (Note 15)	221,429,714	192,609,189
Land and development (Note 16)	26,629,864	25,666,930
Intangibles (Note 17)	22,303,203	20,255,055
Deferred tax assets - net (Note 27)	2,293,944	2,172,799
Other noncurrent assets (Notes 17 and 29)	21,501,842	28,453,455
Total Noncurrent Assets	525,866,799	470,055,216
	₱711,884,609	₱632,994,169
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Notes 18, 22 and 29)	₱13,892,641	₱27,588,259
Accounts payable and other current liabilities (Notes 19 and 29)	69,861,065	68,088,327
Income tax payable	1,593,060	1,612,784
Current portion of long-term debt (Notes 20 and 29)	10,669,108	34,566,619
Dividends payable (Note 29)	264,882	210,189
Total Current Liabilities	96,280,756	132,066,178
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	237,113,555	175,589,418
Derivative liabilities (Notes 29 and 30)	58,705	159,974
Deferred tax liabilities - net (Note 27)	6,867,925	6,970,527
Tenants' deposits and others (Notes 15, 26, 28, 29 and 30)	21,615,259	17,967,224
Total Noncurrent Liabilities	265,655,444	200,687,143
Total Liabilities	361,936,200	332,753,321
<b>Equity Attributable to Owners of the Parent</b>		
Capital stock (Note 21)	7,963,406	7,962,723
Additional paid-in capital (Note 21)	71,952,082	57,799,360
Equity adjustments from common control transactions (Note 21)	(1,902,933)	(2,584,210)
Cost of Parent common shares held by subsidiaries (Note 21)	(25,386)	(25,386)
Cumulative translation adjustment	866,360	1,233,177
Remeasurement loss on defined benefit asset/obligation (Note 26)	(126,530)	(195,074)
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	10,207,259	7,338,500
Retained earnings (Note 21):		
Appropriated	27,000,000	27,000,000
Unappropriated	141,069,856	120,904,727
Total Equity Attributable to Owners of the Parent	257,004,114	219,433,817
<b>Non-controlling Interests</b>	92,944,295	80,807,031
Total Equity	349,948,409	300,240,848
	₱711,884,609	₱632,994,169

See accompanying Notes to Consolidated Financial Statements.



# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2014	2013	2012
<b>REVENUE</b>			
Sales:			
Merchandise	₱197,080,971	₱180,873,042	₱158,888,415
Real estate	22,629,335	21,242,138	22,499,679
Rent (Notes 15, 22 and 28)	32,845,909	27,929,390	24,695,579
Equity in net earnings of associates and joint ventures (Note 13)	13,225,022	13,602,269	9,042,034
Cinema ticket sales, amusement and others	5,771,529	4,945,795	4,824,228
Management and service fees (Note 22)	1,452,771	1,437,561	1,112,302
Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 9, 12 and 30)	51,525	141,163	2,055
Dividend income (Note 22)	595,204	883,494	628,385
Others	2,065,870	2,237,952	2,184,597
	<b>275,718,136</b>	<b>253,292,804</b>	<b>223,877,274</b>
<b>COST AND EXPENSES</b>			
Cost of sales:			
Merchandise (Note 23)	150,917,587	138,720,368	117,896,688
Real estate	12,529,076	12,243,534	14,124,779
Selling, general and administrative expenses (Note 24)	60,081,307	51,043,797	44,978,822
	<b>223,527,970</b>	<b>202,007,699</b>	<b>177,000,289</b>
<b>OTHER INCOME (CHARGES)</b>			
Interest expense (Note 25)	(11,627,529)	(10,943,401)	(10,811,736)
Interest income (Note 25)	3,032,635	3,709,484	4,416,746
Gain on disposal of investments and properties - net (Notes 13 and 15)	2,879,746	546,552	1,301,888
Loss on fair value changes on derivatives - net (Note 30)	(189,554)	(997,576)	(1,403,411)
Foreign exchange gain - net (Note 29)	179,080	59,411	565,132
	<b>(5,725,622)</b>	<b>(7,625,530)</b>	<b>(5,931,381)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>46,464,544</b>	<b>43,659,575</b>	<b>40,945,604</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 27)			
Current	7,723,852	7,367,602	6,453,836
Deferred	(149,863)	(1,947,105)	91,250
	<b>7,573,989</b>	<b>5,420,497</b>	<b>6,545,086</b>
<b>NET INCOME</b>	<b>₱38,890,555</b>	<b>₱38,239,078</b>	<b>₱34,400,518</b>
<b>Attributable to</b>			
Owners of the Parent (Note 31)	₱28,398,584	₱27,445,682	₱24,674,381
Non-controlling interests	10,491,971	10,793,396	9,726,137
	<b>₱38,890,555</b>	<b>₱38,239,078</b>	<b>₱34,400,518</b>
<b>Basic/Diluted Earnings Per Common Share</b>			
Attributable to Owners of the Parent (Note 31)	<b>₱35.66</b>	<b>₱34.85</b>	<b>₱31.76</b>

See accompanying Notes to Consolidated Financial Statements.





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

	Years Ended December 31		
	2014	2013	2012
<b>NET INCOME</b>	<b>₱38,890,555</b>	<b>₱38,239,078</b>	<b>₱34,400,518</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items that will be reclassified to profit or loss in subsequent periods</b>			
Net unrealized gain on available-for-sale investments (Note 12)	4,243,049	2,290,960	4,753,031
Share in unrealized gain (loss) on available-for-sale investments of associates - net (Notes 12 and 13)	435,121	(2,756,754)	1,514,343
Cumulative translation adjustment	(720,937)	892,452	(205,702)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	112,849	(2,841,627)	3,772
	<b>4,070,082</b>	<b>(2,414,969)</b>	<b>6,065,444</b>
<b>Items not to be reclassified to profit or loss in subsequent periods</b>			
Remeasurement gain (loss) on defined benefit obligation (Note 26)	129,883	(201,304)	—
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(38,965)	60,391	—
	<b>90,918</b>	<b>(140,913)</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱43,051,555</b>	<b>₱35,683,196</b>	<b>₱40,465,962</b>
<b>Attributable to</b>			
Owners of the Parent	<b>₱30,969,070</b>	<b>₱23,836,811</b>	<b>₱29,223,730</b>
Non-controlling interests	<b>12,082,485</b>	<b>11,846,385</b>	<b>11,242,232</b>
	<b>₱43,051,555</b>	<b>₱35,683,196</b>	<b>₱40,465,962</b>

*See accompanying Notes to Consolidated Financial Statements.*



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Amounts in Thousands, Except Per Share Data)**

	Equity Attributable to Owners of the Parent												
	Equity Adjustments from Common Control Transactions			Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity	
	Capital Stock	Paid-in Capital											
Balance at December 31, 2013	₱7,962,723	₱57,799,360	(₱2,584,210)	(₱25,386)	₱1,233,177	₱7,338,500	(₱195,074)	₱27,000,000	₱120,904,727	₱219,433,817	₱80,807,031	₱300,240,848	
Net income	—	—	—	—	—	—	—	—	28,398,584	28,398,584	10,491,971	38,890,555	
Other comprehensive income	—	—	—	—	(366,817)	2,868,759	68,544	—	—	2,570,486	1,590,514	4,161,000	
Total comprehensive income	—	—	—	—	(366,817)	2,868,759	68,544	—	28,398,584	30,969,070	12,082,485	43,051,555	
Issuance of Parent common shares (Note 21)	683	47,194	—	—	—	—	—	—	—	47,877	—	47,877	
Cash dividends - ₱10.34 a share (Note 21)	—	—	—	—	—	—	—	—	(8,233,455)	(8,233,455)	—	(8,233,455)	
Decrease in non-controlling interests	—	—	—	—	—	—	—	—	—	—	(728,799)	(728,799)	
Common control transactions (Note 5)	—	—	681,277	—	—	—	—	—	—	681,277	—	681,277	
Re-issuance by a subsidiary of treasury shares to non-controlling shareholders (Note 21)	—	14,105,528	—	—	—	—	—	—	—	14,105,528	3,540,159	17,645,687	
Cash dividends received by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(2,756,581)	(2,756,581)	
Balance at December 31, 2014	₱7,963,406	₱71,952,082	(₱1,902,933)	(₱25,386)	₱866,360	₱10,207,259	(₱126,530)	₱27,000,000	₱141,069,856	₱257,004,114	₱92,944,295	₱349,948,409	
Balance at December 31, 2012	₱6,229,746	₱42,858,920	(₱2,332,796)	(₱125,906)	₱266,915	₱11,718,559	₱—	₱35,000,000	₱94,458,694	₱188,074,132	₱73,570,846	₱261,644,978	
Net income	—	—	—	—	—	—	—	—	27,445,682	27,445,682	10,793,396	38,239,078	
Other comprehensive income	—	—	—	—	966,262	(4,380,059)	(195,074)	—	—	(3,608,871)	1,052,989	(2,555,882)	
Total comprehensive income	—	—	—	—	966,262	(4,380,059)	(195,074)	—	27,445,682	23,836,811	11,846,385	35,683,196	
Issuance of Parent common shares (Note 21)	156,404	14,802,328	—	—	—	—	—	—	—	14,958,732	—	14,958,732	
Disposal of Parent common shares held by subsidiaries (Note 21)	—	138,112	—	100,520	—	—	—	—	—	238,632	—	238,632	
Cash dividends - ₱11.80 a share (Note 21)	—	—	—	—	—	—	—	—	(7,423,076)	(7,423,076)	—	(7,423,076)	
Stock dividends (Note 21)	1,576,573	—	—	—	—	—	—	—	(1,576,573)	—	—	—	
Reversal of appropriation (Note 21)	—	—	—	—	—	—	—	(8,000,000)	8,000,000	—	—	—	
Increase in non-controlling interests	—	—	—	—	—	—	—	—	—	—	1,830,497	1,830,497	
Common control transactions (Notes 5 and 21)	—	—	(251,414)	—	—	—	—	—	—	(251,414)	(2,083,843)	(2,335,257)	
Cash dividends received by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(4,356,854)	(4,356,854)	
Balance at December 31, 2013	₱7,962,723	₱57,799,360	(₱2,584,210)	(₱25,386)	₱1,233,177	₱7,338,500	(₱195,074)	₱27,000,000	₱120,904,727	₱219,433,817	₱80,807,031	₱300,240,848	
Balance at December 31, 2011	₱6,121,640	₱35,536,615	(₱2,332,796)	(₱263,195)	₱428,058	₱7,008,067	₱—	₱5,000,000	₱106,167,942	₱157,666,331	₱64,620,530	₱222,286,861	
Net income	—	—	—	—	—	—	—	—	24,674,381	24,674,381	9,726,137	34,400,518	
Other comprehensive income	—	—	—	—	(161,143)	4,710,492	—	—	—	4,549,349	1,516,095	6,065,444	
Total comprehensive income	—	—	—	—	(161,143)	4,710,492	—	—	24,674,381	29,223,730	11,242,232	40,465,962	
Issuance of Parent common shares (Note 21)	108,106	7,216,451	—	—	—	—	—	—	—	7,324,557	—	7,324,557	
Disposal of Parent common shares held by subsidiaries (Note 21)	—	105,854	—	137,289	—	—	—	—	—	243,143	52,402	295,545	
Cash dividends - ₱10.40 a share (Note 21)	—	—	—	—	—	—	—	—	(6,383,629)	(6,383,629)	—	(6,383,629)	
Appropriation (Note 21)	—	—	—	—	—	—	—	30,000,000	(30,000,000)	—	—	—	
Decrease in non-controlling interests	—	—	—	—	—	—	—	—	—	—	(235,336)	(235,336)	
Cash dividends received by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(2,108,982)	(2,108,982)	
Balance at December 31, 2012	₱6,229,746	₱42,858,920	(₱2,332,796)	(₱125,906)	₱266,915	₱11,718,559	₱—	₱35,000,000	₱94,458,694	₱188,074,132	₱73,570,846	₱261,644,978	

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱46,464,544</b>	<b>₱43,659,575</b>	<b>₱40,945,604</b>
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 13)	<b>(13,225,022)</b>	<b>(13,602,269)</b>	<b>(9,042,034)</b>
Interest expense (Note 25)	<b>11,627,529</b>	<b>10,943,401</b>	<b>10,811,736</b>
Depreciation and amortization (Notes 14, 15 and 24)	<b>10,907,625</b>	<b>9,513,584</b>	<b>8,057,871</b>
Interest income (Note 25)	<b>(3,032,635)</b>	<b>(3,709,484)</b>	<b>(4,416,746)</b>
Gain on disposal of investments and properties - net (Note 15)	<b>(2,879,746)</b>	<b>(546,552)</b>	<b>(1,301,888)</b>
Dividend income	<b>(595,204)</b>	<b>(883,494)</b>	<b>(628,385)</b>
Unrealized foreign exchange loss (gain)	<b>424,836</b>	<b>1,213,565</b>	<b>(93,811)</b>
Loss on fair value changes on derivatives - net (Note 30)	<b>189,554</b>	<b>997,576</b>	<b>1,403,411</b>
Gain on available-for-sale investments and fair value changes on investments held for trading - net (Notes 12 and 30)	<b>(51,525)</b>	<b>(141,163)</b>	<b>(2,055)</b>
Reversal of impairment loss (Notes 10, 13 and 15)	<b>(288,547)</b>	<b>(1,018,156)</b>	<b>(2,743,711)</b>
Income before working capital changes	<b>49,541,409</b>	<b>46,426,583</b>	<b>42,989,992</b>
Decrease (increase) in:			
Land and development	<b>(21,724,031)</b>	<b>(20,763,530)</b>	<b>(13,700,945)</b>
Other current assets	<b>(3,599,889)</b>	<b>(6,220,848)</b>	<b>(6,043,200)</b>
Merchandise inventories	<b>(1,649,892)</b>	<b>870,608</b>	<b>33,694</b>
Receivables	<b>(513,876)</b>	<b>(2,268,025)</b>	<b>(1,809,471)</b>
Increase (decrease) in:			
Accounts payable and other current liabilities	<b>(1,112,518)</b>	<b>16,109,852</b>	<b>13,234,113</b>
Tenants' deposits and others	<b>3,645,973</b>	<b>3,600,244</b>	<b>2,390,156</b>
Defined benefit liability (Note 26)	<b>123,467</b>	<b>126,011</b>	<b>(48,178)</b>
Net cash generated from operations	<b>24,710,643</b>	<b>37,880,895</b>	<b>37,046,161</b>
Income tax paid	<b>(7,737,385)</b>	<b>(7,220,176)</b>	<b>(6,314,700)</b>
Net cash provided by operating activities	<b>16,973,258</b>	<b>30,660,719</b>	<b>30,731,461</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of:			
Shares of stock of associates and joint ventures	<b>7,448,221</b>	<b>1,108,036</b>	<b>1,870,174</b>
Available-for-sale investments and held for trading	<b>2,250,004</b>	<b>1,646,038</b>	<b>2,233,812</b>
Property and equipment	<b>236,518</b>	<b>374,196</b>	<b>161,834</b>
Investment properties	<b>134,890</b>	<b>8,596</b>	<b>236,210</b>
Additions to:			
Investment properties (Note 15)	<b>(37,487,584)</b>	<b>(25,885,092)</b>	<b>(27,932,103)</b>
Property and equipment (Note 14)	<b>(4,522,820)</b>	<b>(5,131,795)</b>	<b>(6,614,570)</b>
Available-for-sale investments	<b>(3,089,078)</b>	<b>—</b>	<b>(3,237,646)</b>
Investments in associates and joint ventures (Note 13)	<b>(1,925,455)</b>	<b>(5,492,653)</b>	<b>(28,261,006)</b>
Time deposits	<b>—</b>	<b>—</b>	<b>(23,005,702)</b>
Decrease in:			
Other noncurrent assets	<b>12,650,366</b>	<b>4,817,513</b>	<b>1,984,796</b>
Pledged time deposits	<b>252,851</b>	<b>5,572,971</b>	<b>—</b>
Dividends received	<b>4,996,065</b>	<b>4,758,493</b>	<b>795,953</b>
Interest received	<b>3,518,976</b>	<b>3,924,505</b>	<b>4,208,464</b>
Acquisition of subsidiaries, net of cash acquired (Note 5)	<b>—</b>	<b>(16,750,597)</b>	<b>—</b>
Net cash used in investing activities	<b>(15,537,046)</b>	<b>(31,049,789)</b>	<b>(77,559,784)</b>

(Forward)



	Years Ended December 31		
	2014	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of:			
Long-term debt	<b>₱84,040,740</b>	₱66,196,550	₱71,638,384
Bank loans	<b>10,862,833</b>	60,249,390	62,039,335
Payments of:			
Long-term debt	<b>(47,795,955)</b>	(47,783,598)	(14,495,495)
Bank loans	<b>(24,568,200)</b>	(70,185,745)	(55,910,180)
Interest	<b>(11,870,553)</b>	(11,608,952)	(9,918,610)
Dividends	<b>(10,935,343)</b>	(13,243,597)	(8,421,026)
Re-issuance by a subsidiary of treasury shares to non- controlling shareholders	<b>17,645,687</b>	—	—
Proceeds from issuance of new common shares (Note 21)	—	6,424,666	6,329,678
Disposal of Parent common shares held by subsidiaries (Note 21)	—	100,520	295,546
Net cash provided by (used in) financing activities	<b>17,379,209</b>	(9,850,766)	51,557,632
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>18,815,421</b>	(10,239,836)	4,729,309
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>108,303</b>	(265,227)	(64,911)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>50,209,657</b>	60,714,720	56,050,322
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱69,133,381</b>	₱50,209,657	₱60,714,720

*See accompanying Notes to Consolidated Financial Statements.*



# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On June 3, 2009, the Philippine Securities and Exchange Commission (SEC) approved the amendment of SMIC's articles of incorporation for the extension of the Parent Company's corporate life for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

The Parent Company and its subsidiaries (collectively referred to as the Group), and its associates and joint ventures are involved primarily in the property, retail and financial services and other businesses.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 4, 2015.

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### 2. Basis of Preparation and Statement of Compliance

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) investments 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 thousands except when otherwise indicated.

#### Statement of Compliance

The consolidated financial statements have been prepared in compliance with PFRS.

#### Basis of Consolidation

The Group is considered to have control over an investee, if and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a



subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

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

Company	Principal Activities	Percentage of Ownership			
		2014		2013	
		Direct	Indirect	Direct	Indirect
<b>Property</b>					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	49	1	51	1
SM Development Corporation (SMDC) and Subsidiaries	Real estate development	–	100	–	100
Magenta Legacy, Inc. (Magenta)	Real estate development	–	100	–	100
Associated Development Corporation	Real estate development	–	100	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	100	–	100
Summerhills Home Development Corp. (SHDC)	Real estate development	–	100	–	100
CHAS Realty and Development Corporation (CHAS) and Subsidiaries	Real estate development	–	100	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	–	100	–	100
Prime Metro Estate, Inc. (PMI)	Real estate development	–	100	–	100
Rappel Holdings, Inc. (Rappel) and Subsidiaries	Real estate development	–	100	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	100	–	100
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	Hotel and tourism	–	100	–	100
Tagaytay Resort Development Corporation (TRDC)	Real estate development	–	100	–	100
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	Real estate development	100	–	100	–

(Forward)



Company	Principal Activities	Percentage of Ownership			
		2014		2013	
		Direct	Indirect	Direct	Indirect
Belleshares Holdings, Inc.(BHI) (formerly SM Commercial Properties, Inc.) and Subsidiaries	Real estate development	59	40	59	40
Intercontinental Development Corporation (ICDC)	Real estate development	97	3	97	3
Prime Central, Inc. (Prime Central) and Subsidiaries	Real estate development	100	–	100	–
Bellevue Properties, Inc.	Real estate development	62	–	62	–
Net Group	Real estate development	90	–	90	–
Sto. Roberto Marketing Corp. (Sto. Roberto)	Real estate development	100	–	100	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	100	–	100	–
<b>Retail</b>					
SM Retail, Inc. (SM Retail) and Subsidiaries	Retail	100	–	100	–
<b>Others</b>					
Primebridge Holdings, Inc. (Primebridge)	Investment	80	20	80	20
Asia Pacific Computer Technology Center, Inc.	Education	52	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	91	–	91	–
Henfels Investments Corp.	Investment	99	–	99	–

*The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines.*

#### Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% and 48% of SM Prime as at December 31, 2014 and 2013, respectively.

The summarized financial information of SM Prime follows:

#### *Financial Position*

	December 31	
	2014	2013
	<i>(In Thousands)</i>	
Current assets	₱105,996,381	₱85,685,323
Noncurrent assets	282,843,778	249,898,359
Total assets	388,840,159	335,583,682
Current liabilities	50,799,205	56,882,069
Noncurrent liabilities	135,802,751	112,480,088
Total liabilities	186,601,956	169,362,157
Total equity	₱202,238,203	₱166,221,525
Attributable to:		
Owners of the Parent	₱199,087,690	₱163,266,540
Non-controlling interests	3,150,513	2,954,985
	₱202,238,203	₱166,221,525



*Statements of Income*

	Years Ended December 31		
	2014	2013	2012
	<i>(In Thousands)</i>		
Revenue	<b>₱66,240,070</b>	₱59,794,410	₱57,215,094
Costs and expenses	<b>38,553,561</b>	35,658,865	35,145,277
Other income (charges)	<b>(4,012,373)</b>	(3,425,454)	(1,635,923)
Income before income tax	<b>23,674,136</b>	20,710,091	20,433,894
Provision for income tax	<b>4,777,647</b>	3,984,163	3,790,461
<b>Net income</b>	<b>₱18,896,489</b>	₱16,725,928	₱16,643,433
Attributable to:			
Owners of the Parent	<b>₱18,390,352</b>	₱16,274,820	₱16,202,777
Non-controlling interests	<b>506,137</b>	451,108	440,656
	<b>18,896,489</b>	16,725,928	16,643,433
Other comprehensive income	<b>5,083,311</b>	1,441,681	6,133,848
<b>Total comprehensive income</b>	<b>₱23,979,800</b>	₱18,167,609	₱22,777,281
Attributable to:			
Owners of the Parent	<b>₱23,474,512</b>	₱17,717,168	₱22,336,625
Non-controlling interests	<b>505,288</b>	450,441	440,656
<b>Total comprehensive income</b>	<b>23,979,800</b>	18,167,609	22,777,281
Dividends paid to non-controlling interests	<b>(₱309,760)</b>	(₱329,760)	(₱10,000)

*Summarized Consolidated Statements of Cash Flows*

	Years Ended December 31		
	2014	2013	2012
	<i>(In Thousands)</i>		
Net cash inflow from operating activities	<b>₱7,009,309</b>	₱23,818,522	₱6,587,696
Net cash outflow from investing activities	<b>(29,693,053)</b>	(30,715,461)	(20,527,706)
Net cash inflow from financing activities	<b>30,796,950</b>	12,708,892	17,907,072
Effect of exchange rate changes			
on cash and cash equivalents	<b>(9,506)</b>	30,187	(13,005)
<b>Net increase in cash and cash equivalents</b>	<b>₱8,103,700</b>	₱5,842,140	₱3,954,057

### 3. Summary of Significant Accounting Policies, Changes and Improvements

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

#### Cash and Cash Equivalents

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

#### Time Deposits and Short-term Investments

Time deposits and short-term investments are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.





#### *Determination of Fair Value*

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

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

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

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 Group 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 Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has 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 Group recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as at the date of the event or change in circumstances that caused the transfer.

#### Financial Instruments

##### *Date of Recognition*

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

##### *Initial Recognition of Financial Instruments*

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

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables,



held-to-maturity (HTM) investments, AFS investments and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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

*Financial Assets and Liabilities at FVPL*

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under “Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net” account. Interest income earned on investment held for trading are recognized in “Interest income” account in the consolidated statement of income.

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

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

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



#### *Loans and Receivables*

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

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

#### *HTM Investments*

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months from reporting period. Otherwise, these are classified as noncurrent assets.

#### *AFS Investments*

AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income under "Net unrealized gain (loss) on available-for-sale investments" account until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period. Otherwise, they are classified as noncurrent.

The Group's investments in shares of stock, bonds and corporate notes, redeemable preferred shares and club shares are classified under this category. The current portion is included under "Investments held for trading and sale" account in the consolidated balance sheet.



#### *Other Financial Liabilities*

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

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

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

#### *Classification of Financial Instruments Between Liability and Equity*

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

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

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

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

#### *Debt Issue Cost*

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

#### *Derivative Financial Instruments*

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

#### *Cash Flow Hedges*

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



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

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

#### *Other Derivative Instruments Not Accounted for as Hedges*

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

#### *Embedded Derivative*

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

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

Options arising from the Group's investment in bonds and convertible bonds payable are the Group's bifurcated embedded derivatives.



### *Derecognition of Financial Assets and Liabilities*

*Financial Assets.* A financial asset is derecognized when:

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

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

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

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

### *Impairment of Financial Assets*

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit



losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

*AFS Investments.* The Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

#### *Offsetting Financial Instruments*

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



#### Merchandise Inventories

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

#### Land and Development and Condominium Units for Sale

Land and development and condominium units for sale are stated at the lower of cost and net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale.

Land and development includes properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost incurred for the development and improvement of the properties includes the following:

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

#### Investments in Associates and Joint Ventures

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

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

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

The Group's investments in 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 Group's share in net assets of the associate or joint venture.

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

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





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

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

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

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

#### Property and Equipment

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

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

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

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

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



The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values 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.

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

#### Investment Properties

Investment properties include property that are held to earn rentals and for capital appreciation and property under construction or re-development. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

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

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

Land improvements	3-5 years
Land use rights	40-60 years
Buildings and improvements	10-35 years
Building equipment, furniture and others	3-15 years

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

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

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

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

#### Construction in Progress

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



#### Tenants' Deposits

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

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

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

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

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

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

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



Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured and subsequent settlement is accounted for within equity.

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

### Goodwill

*Initial Measurement of Goodwill or Gain on a Bargain Purchase.* Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

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

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

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

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

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

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



### Intangible Assets

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

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

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

### Impairment of Nonfinancial Assets

The carrying values (property and equipment, investment properties and investments in associates and joint ventures, intangibles and other noncurrent assets) are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less 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 CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. 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.

### Capital Stock

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.



Revenue and Cost Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties.

*Sale of Merchandise Inventories.* Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at sales shown in the consolidated statement of income.

Sale of goods under consignment arrangements with suppliers is recognized as revenue upon billing, delivery and transfer of goods to customers.

*Sale of Real Estate.* The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectibility is also assessed by considering factors such as collections, credit standing of the buyer and location of the property.

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

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

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Revenue from construction contracts are recognized using the POC method, measured principally on the basis of the estimated physical completion of the contract work.

Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in the estimated cost to complete the



condominium project which affects cost of real estate sold and gross profit are recognized in the year in which changes are determined.

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

*Gain on Sale of Investments in Shares of Stock and Available-for-Sale Investments.* Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

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

*Management and Service Fees.* Revenue and expense is recognized when earned and incurred, respectively, 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.

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

#### Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting 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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and,
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized on the earlier of the date of the plan amendment or curtailment, and the date the Group recognizes restructuring-related costs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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 liability) 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. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are recognized in profit or loss.

#### Foreign Currency Translation

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

#### Leases

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

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

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

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





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

#### Provisions

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

#### Borrowing Costs

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

#### Taxes

*Current 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 the end of the reporting period.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets



are reassessed at the end of each reporting period and are recognized to the extent that 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 as at reporting date.

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

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

*Value-added Tax (VAT).* Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Accounts payable and other current liabilities” accounts in the consolidated balance sheet.

#### Business Segments

The Group is organized and managed separately according to the nature of business. The three major operating businesses of the Group are property, retail and financial services and others. These operating businesses are the basis upon which the Group reports its segment information in 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.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed 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 when an inflow of economic benefits is probable.

#### Events after the Reporting Period

Post year-end events that provide additional information about the Group’s 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.



### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to standards, new interpretation and improvements, starting January 1, 2014. The adoption did not have any impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements – Investment Entities*
- Amendments to PAS 32 – *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to PAS 36 – *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to PAS 39 – *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- Philippine Interpretation IFRIC 21 – *Levies*
- Annual Improvements to PFRSs (2010-2012 cycle) on PFRS 13 – *Fair Value Measurement – Short-term receivables and payables with no stated interest rates*
- Annual Improvements to PFRSs (2011-2013 cycle) on amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – First-time Adoption of PFRS*

### Future Changes in Accounting Policies

The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2014. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

#### *I. Standards Issued but not yet Effective*

##### *PFRS 9 – Financial Instruments – Classification and Measurement (2010 version)*

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015, but mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (PFRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

##### *Philippine Interpretation IFRIC 15 – Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the PFRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.



II. *Issued by the International Accounting Standards Board (IASB) and adopted by the PFRSC but for approval by the BOA*

Effective January 1, 2015

*PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans, this amendment would be relevant to the Group since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) include the following:

- *PFRS 2, Share-based Payment – Definition of Vesting Condition.* This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.
- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*. The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments clarify the following:
  - An entity must disclose the judgments in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization.* The amendment clarifies that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures – Key Management Personnel.* The amendment clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) include the following:

- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that joint arrangements, not just joint ventures, are outside the scope of PFRS 3 and the scope exception applies only to the financial statements of the joint arrangement itself.



- *PFRS 13, Fair Value Measurement – Portfolio Exception.* The amendment clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- *PAS 40, Investment Property.* The amendment clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

*PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any impact to the Group.

*PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to have any impact to the Group.

*PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

*PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

*PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. These amendments are not expected to have any impact to the Group.

*PFRS 14, Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Since the Group is an existing PFRS preparer, this standard would not apply.



*Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) include the following:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendment clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures – Servicing Contracts.* PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements.* The amendment clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits – regional market issue regarding discount rate.* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’.* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

*PFRS 9, Financial Instruments – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*

PFRS 9 (2013 version) includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach.

PFRS 9 (2013 version) has no mandatory effective date, but eventually set to January 1, 2018 when the final version of PFRS 9 was adopted by the PFRSC. Such adoption, however, is still for approval by the BOA.

*PFRS 9, Financial Instruments (2014 or final version)*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of PFRS 9 is not expected to have any significant impact on the Group’s consolidated financial statements.



III. *Issued by the IASB but not adopted yet by the FRSC*

*IFRS 15 Revenue from Contracts with Customers (issued in May 2014)*

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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4. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as of reporting date.

Judgments

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

*Revenue Recognition on Real Estate.* The Group's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing of the buyer and location of the property. The completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage.

*Property Acquisitions and Business Combinations.* The Group acquires subsidiaries which own real estate. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition, no goodwill or deferred tax is recognized.

*Consignment Arrangements on Retail Segment.* The retail segment of the Group has entered into various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, sales revenue is recognized at gross amount upon actual sales to customers. The related inventory stocks supplied under these arrangements are only payable to suppliers when actually sold.

*Operating Lease Commitments - Group as Lessor.* Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by



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

*Operating Lease Commitments - Group as Lessee.* Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

*Assessing Significant Influence over Associates.* Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation on the board of directors, and participation in policy-making processes of the associates.

*Assessing Joint Control of an Arrangement and the Type of Arrangement.* Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

*Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value.* Management determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment and includes an evaluation of price volatility. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

*Assessing of Control or Significant Influence of Investees.*

*Net Group.* Management assessed that SMIC has control of these land-holding companies as the contracting parties intend to align the voting interest in the land-holding companies to reflect the economic interest in these subsidiaries. On June 27, 2014, the Board of Directors and stockholders of the land-holding companies approved the amendment of the Articles of Incorporation to reclassify all its voting preferred shares to common shares resulting in the alignment of SMIC's voting and economic interests. The amendment is pending review and approval by the SEC as at March 4, 2015.

In addition, SMIC has secured its interest in the land by virtue of its long-term leases on both the buildings and land (see Note 5).

*BDO Unibank, Inc. (BDO)* The Group has 47% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's voting rights are not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

#### Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Revenue and Cost Recognition.* The Group's revenue from real estate and construction contracts recognized based on the POC are measured principally on the basis of the estimated completion of a physical proportion of the contract work.





*Impairment of Receivables.* The Group maintains an amount of allowance for impairment loss considered adequate to provide for potential uncollectible receivables. The allowance is evaluated on the basis of factors that affect the collectibility of the accounts including the length of the Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. See Note 10 for related balances.

*Impairment of AFS Investments - Calculation of Impairment Losses.* The computation for the impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments. See Note 12 for related balances.

*Net Realizable Value of Merchandise Inventories, Condominium Units for Sale, and Land and Development.* The Group writes down merchandise inventories, condominium units for sale, and land and development to net realizable value, through the use of an allowance account, whenever the net realizable value of the assets become lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 16 and 23 for related balances.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the assets are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. In 2014 and 2013, the Group assessed that the net realizable value of merchandise inventories, condominium units for sale and land and land development are higher than cost, hence, the Group did not recognize any losses on writedown.

*Estimated Useful Lives of Property and Equipment and Investment Properties.* The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 14 and 15 for related balances.

*Impairment of Investments in Shares of Stock of Associates.* Impairment review of investments in shares of stock of associates is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.



*Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives.*

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 17 for related balances.

*Impairment of Other Nonfinancial Assets.* The Group assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgments and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 14 and 15 for related balances.

*Purchase Price Allocation in Business Combinations.* The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names with indefinite lives. See Note 5 for related balances.

*Realizability of Deferred Tax Assets.* The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Group's deferred tax assets was recognized. See Note 27 for related balances.

*Present Value of Defined Benefit Obligation.* The present value of the pension obligations depends on a number of factors including the discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.



While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations. See Note 26 for related balances.

*Fair Value of Financial Assets and Liabilities.* The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and other comprehensive income. See Notes 29 and 30 for related balances.

*Contingencies.* The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

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## 5. Corporate Restructuring and Significant Acquisitions

### Corporate Restructuring

In 2013, SM Prime initiated a corporate restructuring exercise to consolidate all of the Group's real estate subsidiaries and real estate assets under one single listed entity which is SM Prime (collectively, the "SM Property Group"). The overall objective is to bring to the equities market the most comprehensive and integrated Philippine property company that will engage the investor community in the long-term growth potential not just of the Philippine property sector, but also of the consumer and tourism sectors.

Following are the significant corporate restructuring transactions of the SM Property Group:

a. SM Land's Tender Offers for SMDC and HPI

Both SMDC and HPI are companies primarily engaged in real estate development listed in the PSE and registered with the Philippine SEC. On June 4, 2013, SM Land launched a tender offer to the existing shareholders of SMDC and HPI in exchange for SM Prime shares held by SM Land. The terms of the tender offer were executed at an exchange ratio of 0.472 SM Prime share for 1 SMDC share and 0.135 SM Prime share for 1 HPI share. The exchange ratios were arrived at based on SM Prime's one month volume-weighted average price (VWAP) of ₱18.66 per share and a six percent premium to SMDC's one month VWAP of ₱8.303 per share. For HPI, the exchange ratios were arrived at based on SM Prime's one month VWAP of ₱18.66 per share and a fifteen percent premium to HPI's one month VWAP of ₱2.195 per share. The tender offers were completed on August 12, 2013. Total number of SM Prime common shares held by SM Land exchanged to complete the tender offer to shareholders of SMDC and HPI is 1,778,427,940. After the completion of the Tender Offer, SMDC and HPI became 98.9% and 99.9% subsidiaries of SM Land.

On November 5, 2013, SMDC and HPI were delisted from the PSE.



b. Merger of SM Prime and SM Land

Following the completion of the tender offer, on October 10, 2013, the SEC approved the merger of SM Prime and SM Land via a share-for-share swap where the stockholders of SM Land received new SM Prime shares in exchange for their shareholdings in SM Land. SM Prime is the surviving entity while SM Land is the absorbed entity. As a result of the merger, SMDC and HPI became subsidiaries of SM Prime effective October 10, 2013. In addition to the shareholdings in SMDC and HPI, SM Prime now holds SM Land's real estate assets which includes among others, Mall of Asia Complex (MOAC), office buildings such as Two E-Com in MOAC, Cyber 1 and Cyber 2 in Makati, and certain real properties leased to SM SaveMore and SM Department Store. The merger ratio of 738 SM Prime shares for 1 SM Land share were arrived based on the net appraised values of SM Prime and SM Land as at February 28, 2013 as conducted by CB Richard Ellis. The total number of new SM Prime common shares issued to SM Land shareholders is 14,390,923,857.

c. Acquisition of unlisted real estate companies and real estate assets from SMIC and the Sy Family

On October 10, 2013, the SEC approved SM Prime's acquisition of SMIC's unlisted real estate companies including SM Hotels, SM Arena, Costa, PMI and TRDC (collectively, the "Unlisted Real Estate Companies"). The SEC likewise approved SM Prime's acquisition of real property assets of SMIC which includes among others, SMX Convention Center in MOAC and real properties located in Tagaytay, by issuing new SM Prime shares to SMIC. The unlisted real estate companies and real estate assets of SMIC were acquired based on the appraised values as at February 28, 2013 as conducted by CB Richard Ellis. The total acquisition price of the unlisted real estate companies and real property assets amounted to ₱25.8 billion equivalent to 1,382,841,458 SM Prime common shares issued based on SM Prime 30-day VWAP of ₱18.66.

The Group viewed the series of the corporate restructuring transactions described above as a "single" or "linked" arrangements effected by the Sy Family (the Controlling Shareholder) to re-organize its real estate businesses and assets. The companies and real estate assets (accounted for as business units) involved in the restructuring are all under the common control by the Sy Family.

The impact to SMIC of the SM Property Group corporate restructuring is as follows:

*SMDC, SM Land, SM Prime and Unlisted Real Estate Companies.* The corporate restructuring resulted in changes in SMIC's ownership interest in these subsidiaries only without loss of control. The related transaction costs of ₱1,862.1 million was recorded under the "Equity adjustments from common control transactions" account.

*HPI.* The increase in ownership interest of HPI from 27% to 51% resulted in acquisition of control. HPI is ultimately controlled by the Sy Family, hence, the transaction was accounted for as a step acquisition of an associate under common control. HPI was consolidated beginning 2013. The related transaction costs of ₱38.1 million was recognized as an expense under "Selling, general and administrative expenses" account of the 2013 consolidated statement of income.

The difference of ₱1,610.7 million between the carrying value of the net assets disposed to non-controlling interests and the carrying value of the net assets acquired from non-controlling interests was recorded as part of the "Equity adjustments from common control transactions" account in the equity section of the 2013 consolidated balance sheet.



### Acquisitions

*Net Group.* On December 2, 2013, SMIC entered into a Shareholders Agreement and Share Purchase Agreement for the acquisition of ownership interests in the following companies (collectively, the “Net Group”):

Company	Voting Interest	Economic Interest
6-24 Property Holdings, Inc.	90%	90%
14-678 Property Holdings, Inc.	90%	90%
19-1 Property Holdings, Inc.	90%	90%
18-2 Property Holdings, Inc.	90%	90%
6-3 Property Holdings, Inc.	90%	90%
Crescent Park 6-24 Property Holdings, Inc.	40%	90%
Crescent Park 14-678 Property Holdings, Inc.	40%	90%
Crescent Park 19-1 Property Holdings, Inc.	40%	90%
Crescent Park 18-2 Property Holdings, Inc.	40%	90%
Crescent Park 6-3 Property Holdings, Inc.	40%	90%

As a result of the acquisition, the Net Group became a partially-owned subsidiary of SMIC. The primary reason for acquiring the Net Group was to expand the Group’s commercial development operations across major commercial business districts.

In 2014, the fair values of the identifiable assets and liabilities were finalized as follows:

	Fair Values (As at Acquisition Date)
	<i>(In Thousands)</i>
Cash and cash equivalents	₱822,890
Receivables	116,397
Other current assets	184,912
Property and equipment (see Note 14)	2,936
Investment properties (see Note 15)	16,761,000
<b>Total identifiable assets</b>	<b>17,888,135</b>
Less:	
Trade payables and other current liabilities	652,212
Bank loan	4,923,509
Deferred tax liabilities	2,323,661
<b>Total identifiable liabilities</b>	<b>7,899,382</b>
<b>Total identifiable net assets at fair value</b>	<b>9,988,753</b>
Non-controlling interest measured at proportionate share of the fair value	(998,875)
<b>Goodwill arising from acquisition</b>	<b>3,696,369</b>
<b>Purchase consideration</b>	<b>₱12,686,247</b>

The Net Group’s receivables comprise mainly of lease receivables from tenants amounting to ₱116.4 million which was the carrying value as at acquisition date. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

*WSI.* In January and May 2013, SM Retail acquired a total of 193,800,000 shares of WSI equivalent to 51% ownership interest for ₱3,570.0 million. WSI is mainly engaged in the business of trading goods and merchandise. As a result of the acquisition, WSI became a partially-owned



subsidiary of the Group. The primary reason for acquiring WSI was to expand the Group's market share through the pre-existing stores of WSI.

In 2014, the fair values of the identifiable assets and liabilities were finalized as follows:

	Fair Values (As at Acquisition Date)
	<i>(In Thousands)</i>
Cash and cash equivalents	₱552,991
Receivables	187,710
Inventories	700,154
Property and equipment (see Note 14)	425,511
Investment properties (see Note 15)	182,774
Other current and noncurrent assets	181,047
Total identifiable assets	2,230,187
Less:	
Trade payables and other current liabilities	1,604,293
Other liabilities	3,606
Total identifiable liabilities	1,607,899
Total identifiable net assets at fair value	622,288
Non-controlling interest measured at proportionate share of the fair value	(304,921)
Goodwill arising from acquisition	3,252,633
Purchase consideration	₱3,570,000

WSI's receivables comprise mainly of trade receivables amounting to ₱187.7 million which was the carrying value as at acquisition date. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

*CHAS.* In January 2013, the SM Prime entered into a Binding Share Purchases Agreement for the acquisition of 100% interest in CHAS for a total purchase consideration of ₱1,685.0 million. CHAS is engaged in the business of shopping mall operations which owns Cabanatuan Megacenters in Nueva Ecija. SM Prime acquired CHAS to expand its market share through the pre-existing mall of CHAS.

In December 2013, SM Prime completed its acquisition of 100% interest in CHAS.

Total identifiable assets acquired amounted to ₱1,834.0 million, which mainly consist of investment properties amounting to ₱1,385.0 and cash and other assets amounting to ₱449.0 million. Total identifiable liabilities assumed amounted to ₱149.0 million, which mainly consist of accounts payable and other current liabilities. The resulting identifiable net assets acquired amounted to ₱1,685.0 million. No goodwill is recognized upon completion of the acquisition.

The fair value of acquired receivables amounting to ₱37.0 million (included in "Receivables") approximates their carrying value. No impairment loss was provided on these receivables.

SMIC's consolidated revenue and net income would have increased by ₱80.0 million and decreased by ₱105.0 million, respectively, in 2013 had the acquisition of CHAS taken place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.



Net cash outflow from the acquisition of CHAS amounted to ₱2,238.0 million, inclusive of advances made to CHAS prior to the acquisition amounting to ₱665.0 million and net of cash acquired from CHAS amounting to ₱112.0 million.

## 6. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

The property segment is involved in mall, residential and commercial development and hotels and convention centers operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, 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. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise.

The financial services and others segment primarily includes the Parent Company which engages in asset management and capital investments, and associates which are involved in financial services.

The BOD (Chief Operating Decision Maker) 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.

### Operating Segment Financial Data

	2014				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
	(In Thousands)				
Revenue:					
External customers	₱61,746,895	₱200,028,416	₱13,942,825	₱—	₱275,718,136
Inter-segment	7,493,808	75,500	14,327,200	(21,896,508)	—
	₱69,240,703	₱200,103,916	₱28,270,025	(₱21,896,508)	₱275,718,136
Segment results:					
Income before income tax	₱25,127,676	₱8,721,887	₱13,906,050	(₱1,291,069)	₱46,464,544
Provision for income tax	(4,886,808)	(2,590,050)	(101,865)	4,734	(7,573,989)
Net income	₱20,240,868	₱6,131,837	₱13,804,185	(₱1,286,335)	₱38,890,555
Net income attributable to:					
Owners of the Parent	₱19,725,253	₱5,858,974	₱13,804,185	(₱10,989,828)	₱28,398,584
Non-controlling interests	515,615	272,863	—	9,703,493	10,491,971



2013					
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
	(In Thousands)				
Revenue:					
External customers	₱56,109,064	₱183,606,666	₱13,577,074	₱–	₱253,292,804
Inter-segment	6,004,771	117,556	16,101,800	(22,224,127)	–
	₱62,113,835	₱183,724,222	₱29,678,874	(₱22,224,127)	₱253,292,804
Segment results:					
Income before income tax	₱23,672,023	₱8,551,740	₱12,331,124	(₱895,312)	₱43,659,575
Provision for income tax	(3,991,614)	(2,446,033)	289,085	728,065	(5,420,497)
Net income	₱19,680,409	₱6,105,707	₱12,620,209	(₱167,247)	₱38,239,078
Net income attributable to:					
Owners of the Parent	₱19,229,302	₱5,748,921	₱12,620,209	(₱10,152,750)	₱27,445,682
Non-controlling interests	451,107	356,786	–	9,985,503	10,793,396
2012					
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
	(In Thousands)				
Revenue:					
External customers	₱52,609,032	₱161,149,617	₱10,118,625	₱–	₱223,877,274
Inter-segment	11,498,582	89,139	11,891,579	(23,479,300)	–
	₱64,107,614	₱161,238,756	₱22,010,204	(₱23,479,300)	₱223,877,274
Segment results:					
Income before income tax	₱25,528,157	₱9,258,062	₱10,061,252	(₱3,901,867)	₱40,945,604
Provision for income tax	(3,687,017)	(2,708,977)	(149,092)	–	(6,545,086)
Net income	₱21,841,140	₱6,549,085	₱9,912,160	(₱3,901,867)	₱34,400,518
Net income attributable to:					
Owners of the Parent	₱19,828,629	₱6,328,141	₱9,912,160	(₱11,394,549)	₱24,674,381
Non-controlling interests	2,012,511	220,944	–	7,492,682	9,726,137

## 7. Cash and Cash Equivalents

This account consists of:

	2014	2013
	(In Thousands)	
Cash on hand and in banks (see Note 22)	<b>₱9,428,922</b>	₱10,202,986
Temporary investments (see Notes 18 and 22)	<b>59,704,459</b>	40,006,671
	<b>₱69,133,381</b>	₱50,209,657

Cash in banks earn interest at the respective bank deposit rates (see Note 25). Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at prevailing temporary investments rates.





## 8. Time Deposits and Short-term Investments

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Time deposits:		
Not pledged (see Note 22)	<b>₱54,167,524</b>	₱34,018,075
Pledged (see Notes 20 and 22)	<b>1,956,800</b>	21,087,625
	<b>56,124,324</b>	55,105,700
Short-term investments (see Note 22)	–	887,900
	<b>56,124,324</b>	55,993,600
Less current portion	<b>9,000,324</b>	28,912,650
Noncurrent portion	<b>₱47,124,000</b>	₱27,080,950

The time deposits as at December 31, 2014 and 2013 bear annual interest ranging from 1.0% to 4.9% and 1.1% to 5.4%, respectively.

Time deposits amounting to nil and US\$475.0 million (₱21,087.6 million) as at December 31, 2014 and 2013, respectively are used as collateral for loans obtained by the Parent Company (see Note 20).

Time deposits amounting to US\$44.4 million (₱1,956.8 million), as at December 31, 2014 are used as collateral for certain credit lines and loans of a subsidiary (see Note 20).

Interest earned from time deposits and short-term investments is disclosed in Note 25.

## 9. Investments Held for Trading and Sale

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Investments held for trading -		
Bonds	<b>₱307,835</b>	₱459,754
AFS investments (see Note 12):		
Bonds and corporate notes	<b>986,742</b>	–
Shares of stock		
Listed	<b>2,890,592</b>	659,226
Unlisted	<b>5,280</b>	–
	<b>3,882,614</b>	659,226
	<b>₱4,190,449</b>	₱1,118,980

The Group recognized a gain of ₱2.1 million, loss of ₱18.2 million and a gain of ₱16.3 million from fair value adjustments of investments held for trading in 2014, 2013 and 2012, respectively. The amounts are included under “Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net” account in the consolidated statements of income.

Interest earned on investments held for trading and sale is disclosed in Note 25.



## 10. Receivables

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Trade:		
Real estate buyers	<b>₱30,642,764</b>	₱29,150,833
Third-party tenants	<b>4,597,101</b>	3,329,038
Related-party tenants (see Note 22)	<b>1,890,274</b>	2,594,444
Due from related parties (see Note 22)	<b>1,194,099</b>	1,334,076
Dividends	<b>875,032</b>	766,816
Management and service fees (see Note 22)	<b>516,967</b>	433,921
Total	<b>39,716,237</b>	37,609,128
Less allowance for impairment loss	<b>364,834</b>	334,891
	<b>39,351,403</b>	37,274,237
Less noncurrent portion of receivables from real estate buyers (see Note 17)	<b>8,341,583</b>	10,636,503
Current portion	<b>₱31,009,820</b>	₱26,637,734

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units, at various terms of payment.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss follow:

	2014	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>₱334,891</b>	₱155,274
Provision for the year (see Note 24)	<b>30,200</b>	179,640
Reversal of provision	<b>(257)</b>	(23)
Balance at end of year	<b>₱364,834</b>	₱334,891

The allowance for impairment loss pertains to receivables from real estate buyers and tenants which were identified through specific assessment.



The aging analysis of receivables as at December 31, 2014 and 2013 follows:

December 31, 2014						
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
(In Thousands)						
Trade:						
Real estate buyers:						
Current	₱18,299,467	₱1,072,161	₱317,632	₱2,259,074	₱ 352,847	₱22,301,181
Noncurrent	8,341,583	—	—	—	—	8,341,583
Third-party tenants	4,433,330	3,468	148,316	—	11,987	4,597,101
Related-party tenants	1,890,274	—	—	—	—	1,890,274
Due from related parties	1,194,099	—	—	—	—	1,194,099
Dividends	875,032	—	—	—	—	875,032
Management and service fees	516,967	—	—	—	—	516,967
Net receivables before allowance for impairment loss	₱35,550,752	₱1,075,629	₱465,948	₱2,259,074	₱364,834	₱39,716,237
December 31, 2013						
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
(In Thousands)						
Trade:						
Real estate buyers:						
Current	₱17,142,278	₱231,862	₱145,587	₱671,699	₱322,904	₱18,514,330
Noncurrent	10,636,503	—	—	—	—	10,636,503
Third-party tenants	3,208,416	69,975	38,660	—	11,987	3,329,038
Related-party tenants	2,594,444	—	—	—	—	2,594,444
Due from related parties	1,334,076	—	—	—	—	1,334,076
Dividends	766,816	—	—	—	—	766,816
Management and service fees	433,921	—	—	—	—	433,921
Net receivables before allowance for impairment loss	₱36,116,454	₱301,837	₱184,247	₱671,699	₱334,891	₱37,609,128

Receivables, other than those identified as impaired, are assessed by the Group's management as good and collectible.

## 11. Other Current Assets

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Land and development (see Note 16)	₱19,571,526	₱12,542,783
Non-trade receivables, net of allowance for impairment loss of ₱5.7 million	10,994,304	5,086,936
Condominium units for sale (see Note 16)	7,600,260	6,213,523
Prepaid taxes and other prepayments	6,839,583	5,652,642
Advances and deposits	6,401,689	5,091,059
Input tax	2,995,345	2,987,264
Receivable from banks and credit cards	1,625,671	2,423,215
Escrow fund (see Note 17)	667,778	439,119
Accrued interest receivable	473,422	959,763
Advances for project development (see Note 22)	16,467	88,615
Others	615,591	1,342,705
	₱57,801,636	₱42,827,624



- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account. Interest income earned from the cash in escrow amounted to ₱7.0 million, ₱5.0 million and ₱84.0 million in 2014, 2013 and 2012, respectively.
- Accrued interest receivable relates mostly to time deposits and are normally collected within the next financial year.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

## 12. Available-for-Sale Investments

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Shares of stock:		
Listed (see Note 20)	₱17,379,067	₱11,539,018
Unlisted	99,467	99,468
Bonds and corporate notes (see Note 20)	5,626,784	5,539,822
Club shares	13,590	11,260
	23,118,908	17,189,568
Less allowance for impairment loss	31,250	31,250
	23,087,658	17,158,318
Less current portion (see Note 9)	3,882,614	659,226
Noncurrent portion	₱19,205,044	₱16,499,092

- Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to nil and ₱3,594.0 million as at December 31, 2014 and 2013, respectively, are pledged as collateral for a portion of the Group's long-term debt.
- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.
- Investments in bonds and corporate notes as at December 31, 2014 and 2013 include third party convertible bonds and corporate notes with fixed interest rates ranging from 3.9% to 8.25%. These investments will mature on various dates beginning February 2015 to October 2023. The fair values of these investments as at December 31, 2014 and 2013 amounted to US\$125.8 million (₱5,626.8 million) and US\$124.8 million (₱5,539.8 million), respectively.



The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2014 and 2013 follow:

	2014	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>₱7,338,500</b>	₱11,718,559
Share in net unrealized gain (loss) on AFS investments of associates (see Note 13)	<b>322,170</b>	(2,687,077)
Gain (loss) due to changes in fair value of AFS investments	<b>2,595,964</b>	(1,542,034)
Transferred to profit or loss	<b>(49,375)</b>	(150,948)
Balance at end of year	<b>₱10,207,259</b>	₱7,338,500

Gain (loss) on disposal of AFS investments recognized under “Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net” account in the consolidated statement of income amounted to ₱49.4 million, ₱150.9 million and (₱0.1) million for the years ended December 31, 2014, 2013 and 2012, respectively. The amounts are exclusive of non-controlling interests.

Interest earned from AFS investments is disclosed in Note 25.

### 13. Investments in Associates and Joint Ventures

The movements in this account follow:

	2014	2013
	<i>(In Thousands)</i>	
Cost:		
Balance at beginning of year	<b>₱96,600,517</b>	₱92,840,123
Disposals - net of realized deferred gain	<b>(3,374,617)</b>	(21,556)
Additions	<b>1,925,455</b>	5,492,653
Acquisition of controlling interest of HPI and SHDC (see Note 5)	–	(1,710,703)
Balance at end of year	<b>95,151,355</b>	96,600,517
Accumulated equity in net earnings:		
Balance at beginning of year	<b>42,393,849</b>	36,388,668
Equity in net earnings	<b>13,225,022</b>	13,602,269
Dividends received	<b>(4,509,077)</b>	(4,499,652)
Accumulated equity in net earnings of investments sold	<b>(1,210,251)</b>	(2,208)
Accumulated equity in net earnings of investments - HPI and SHDC	–	(338,474)
Balance at end of year	<b>49,899,543</b>	45,150,603
Share in net unrealized gain (loss) on AFS investments of associates	<b>435,121</b>	(2,756,754)
	<b>50,334,664</b>	42,393,849

(Forward)



	2014	2013
	<i>(In Thousands)</i>	
Translation adjustment	<b>(P9,845)</b>	<b>P-</b>
Allowance for impairment loss:		
Balance at beginning of year	—	775,047
Recovery (Note 24)	—	(775,047)
Balance at end of year	—	—
	<b>P145,476,174</b>	<b>P138,994,366</b>

The major associates and joint venture of the Group follow:

Company	Percentage of Ownership				Principal Activities
	December 31, 2014	Effective	December 31, 2013	Effective	
<b>Associates</b>					
BDO Unibank, Inc. and Subsidiaries (BDO)	47	45	48	47	Financial services
China Banking Corporation and Subsidiaries (China Bank)	22	20	23	20	Financial services
Belle Corporation and Subsidiaries (Belle)	32	28	32	28	Real estate development and tourism
Atlas Consolidated Mining, Inc. (Atlas)	29	29	29	29	Mining
Sodexo Motivation Solutions Philippines, Inc.	40	40	40	40	Retail
Fast Retailing Philippines, Inc.	25	25	25	25	Retail
CityMall Commercial Centers, Inc. (CityMall)	34	34	—	—	Real estate development and tourism
<b>Joint Venture</b>					
Waltermart Mall	51	25	51	26	Shopping mall development

### CityMall

On February 17, 2014, SMIC signed an Investment and Shareholders Agreement for the acquisition of 34.0% ownership interest in CityMall for an initial investment of P0.34 million. The remaining 66.0% of the outstanding capital is held by DoubleDragon Properties Corp.

On April 25, 2014, SMIC, in response to a capital call, invested an additional P103.0 million equivalent to 1.0 million shares in CityMall.

### China Bank

In March 2014, China Bank had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every 8.834 common shares held as at record date at an offer price of P49.50 per rights share. As at May 5, 2014, SMIC exercised its rights share and paid P1,383.6 million equivalent to 28.0 million China Bank shares.

In May 2014, China Bank declared a stock dividend equivalent to 8% of the outstanding capital stock of China Bank, which increased the number of common shares held by SMIC by 22.0 million. The shares were issued on October 15, 2014.

### Belle

In 2013, SMIC acquired 100% ownership in Sto. Roberto. The acquisition of Sto. Roberto increased the Group's effective interest in BHI to 99% which resulted to an increase in the Group's effective ownership in BHI.

On various dates in 2013, the Group sold 20.2 million Belle shares on which the Group realized P10.8 million of deferred gain. The remaining balance of deferred gain as at December 31, 2014 and 2013 amounted to P1,065.7 million.



### BDO

In 2014, MRDC sold 71.6 million BDO shares for ₱7,403.7 million at ₱104.0 per share resulting to a gain on sale of ₱2,863.4 million which is included under “Gain on disposal of investments and properties - net” account in the consolidated statement of income.

### Atlas

In 2014, Primebridge acquired 2.2 million shares of Atlas for a total consideration of ₱25.7 million.

### HPI

In 2013, through the corporate restructuring, HPI became a subsidiary of SMIC, indirectly through SM Prime. The acquisition of the controlling interest of HPI was considered as a business combination under common control. Thus, this was accounted for as a step-up acquisition using the pooling of interest method (Note 5).

In 2013, the Group reversed the allowance for impairment loss in investment in HPI amounting to ₱775.0 million and is included under “Reversal of impairment loss and others” under “Selling, general and administrative expenses” account in the consolidated statements of income (see Note 24). The Group made a reassessment of its investments in shares of stock of HPI and concluded that the impairment is no longer necessary in reference to the quoted stock price of HPI in the market.

### Waltermart Mall

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

- Winsome Development Corporation
- Willin Sales, Inc.
- Williamson, Inc.
- Waltermart Ventures, Inc.
- Waltermart Development, Inc.

On July 12, 2013, the Deeds of Absolute Sale were executed between SM Prime and shareholders of Waltermart Mall. Waltermart Mall is involved in shopping mall operations and owns several malls across Luzon. The investment in Waltermart Mall was accounted as investment in joint ventures using the equity method of accounting because the contractual arrangement between the parties establishes joint control.

The condensed financial information of the Group’s material associate, BDO, and the reconciliation of its net assets to the carrying amounts in the consolidated financial statements follow:

	2014	2013
		<i>(In Millions)</i>
Total assets	<b>₱1,863,649</b>	₱1,672,778
Total liabilities	<b>(1,683,980)</b>	(1,508,424)
Total equity	<b>179,669</b>	164,354
Proportion of the Group’s ownership	<b>47%</b>	48%
	<b>84,444</b>	78,890
Goodwill and others	<b>21,134</b>	24,120
Carrying amount of the investment	<b>₱105,578</b>	₱103,010



	2014	2013	2012
	<i>(In Millions)</i>		
Interest income	<b>₱63,583</b>	₱56,606	₱54,014
Interest expense	<b>12,358</b>	13,440	17,893
Other expenses - net	<b>(28,397)</b>	(20,520)	(21,579)
Net income	<b>₱22,828</b>	₱22,646	₱14,542
Share in net income	<b>₱11,002</b>	₱10,676	₱6,897
Other comprehensive income (loss)	<b>₱390</b>	(₱4,766)	₱3,303
Total comprehensive income	<b>23,218</b>	17,880	17,845
Share in comprehensive income	<b>₱11,122</b>	₱8,381	₱8,360

The aggregate information of associates and joint ventures that are not individually material follows:

	2014	2013	2012
	<i>(In Millions)</i>		
Share in net income	<b>₱2,223</b>	₱2,926	₱2,145
Share in other comprehensive income (loss)	<b>315</b>	(327)	111
Share in total comprehensive income	<b>₱2,538</b>	₱2,599	₱2,256

As at December 31, the fair values of investments in associates which are listed in the PSE are as follows:

	2014	2013
	<i>(In Thousands)</i>	
BDO	<b>₱196,965,081</b>	₱158,844,179
China Bank	<b>18,199,904</b>	19,003,197
Belle	<b>16,334,039</b>	16,434,274
Atlas	<b>6,148,415</b>	8,764,505





#### 14. Property and Equipment

The movements in this account follow:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>										
<b>Cost</b>										
Balance as at December 31, 2012	₱2,412,990	₱4,369,288	₱7,576,904	₱4,538,804	₱3,982,501	₱3,369,046	₱4,989,941	₱593,227	₱1,234,953	₱33,067,654
Additions	–	566,841	1,194,897	325,373	520,580	604,179	1,071,236	66,081	782,608	5,131,795
Effect of business combination (see Note 5)	–	8,066	865,036	74,265	1,410	1,418	–	2,596	263,643	1,216,434
Reclassifications	(2,382,990)	67,187	1,410,778	265,870	139,905	(285,449)	1,678,823	30,713	(776,681)	148,156
Disposals/retirements	(30,000)	(605,516)	(8,598)	(580,863)	(29,769)	(37,616)	(36,577)	(5,923)	(177,169)	(1,512,031)
Balance as at December 31, 2013	–	4,405,866	11,039,017	4,623,449	4,614,627	3,651,578	7,703,423	686,694	1,327,354	38,052,008
Additions	–	1,041,481	265,057	342,848	617,733	544,813	801,759	52,437	856,692	4,522,820
Reclassifications	–	5,714,488	(8,595,757)	140,156	627,358	273,524	3,600,135	19,500	(776,085)	1,003,319
Disposals/retirements	–	(108,430)	(4,953)	(30,884)	(33,948)	(58,338)	(158,692)	(2,764)	(141,458)	(539,467)
<b>Balance as at December 31, 2014</b>	<b>₱–</b>	<b>₱11,053,405</b>	<b>₱2,703,364</b>	<b>₱5,075,569</b>	<b>₱5,825,770</b>	<b>₱4,411,577</b>	<b>₱11,946,625</b>	<b>₱755,867</b>	<b>₱1,266,503</b>	<b>₱43,038,680</b>
<b>Accumulated Depreciation and Amortization</b>										
Balance as at December 31, 2012	₱–	₱1,226,734	₱5,010,515	₱3,110,454	₱2,003,860	₱1,878,250	₱2,336,997	₱314,327	₱–	₱15,881,137
Depreciation and amortization	–	338,054	616,380	532,018	603,746	962,994	666,619	54,461	–	3,774,272
Effect of business combination (see Note 5)	–	–	725,138	60,658	75	76	–	1,851	–	787,798
Reclassifications	–	323,592	966,206	48,100	48,567	(513,915)	(309,346)	19,067	–	582,271
Disposals/retirements	–	(558,336)	(130,529)	(552,812)	(16,421)	(19,823)	(15,873)	(3,056)	–	(1,296,850)
Balance as at December 31, 2013	–	1,330,044	7,187,710	3,198,418	2,639,827	2,307,582	2,678,397	386,650	–	19,728,628
Depreciation and amortization	–	815,286	570,652	608,958	664,357	535,333	1,334,214	(239,563)	–	4,289,237
Reclassifications	–	826,353	(6,086,373)	(78,738)	40,402	38,734	4,341,977	305,930	–	(611,715)
Disposals/retirements	–	(78,543)	(3,021)	(16,759)	(27,022)	(50,086)	(92,407)	(2,646)	–	(270,484)
<b>Balance as at December 31, 2014</b>	<b>₱–</b>	<b>₱2,893,140</b>	<b>₱1,668,968</b>	<b>₱3,711,879</b>	<b>₱3,317,564</b>	<b>₱2,831,563</b>	<b>₱8,262,181</b>	<b>₱450,371</b>	<b>₱–</b>	<b>₱23,135,666</b>
<b>Net Book Value</b>										
<b>As at December 31, 2014</b>	<b>₱–</b>	<b>₱8,160,265</b>	<b>₱1,034,396</b>	<b>₱1,363,690</b>	<b>₱2,508,206</b>	<b>₱1,580,014</b>	<b>₱3,684,444</b>	<b>₱305,496</b>	<b>₱1,266,503</b>	<b>₱19,903,014</b>
As at December 31, 2013	–	3,075,822	3,851,307	1,425,031	1,974,800	1,343,996	5,025,026	300,044	1,327,354	18,323,380

As at December 31, 2014 and 2013, the Group has no idle property and equipment and the gross carrying amount of fully depreciated property and equipment still in use amounted to ₱11,242.2 million and ₱8,455.8 million, respectively.



## 15. Investment Properties

The movements in this account follow:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
<b>Cost</b>					
Balance as at December 31, 2012	₱34,990,179	₱112,061,331	₱21,617,309	₱17,061,279	₱185,730,098
Additions	4,800,290	5,307,963	1,619,709	14,157,130	25,885,092
Effect of business combination (see Note 5)	—	20,774,116	—	—	20,774,116
Reclassifications	746,887	6,770,851	6,196,877	(4,637,452)	9,077,163
Translation adjustment	347,920	1,706,129	206,315	587,066	2,847,430
Disposals	(747,287)	(11,389,188)	(876,904)	(837,905)	(13,851,284)
Balance as at December 31, 2013	40,137,989	135,231,202	28,763,306	26,330,118	230,462,615
Additions	10,256,889	8,069,580	1,738,300	17,422,815	37,487,584
Reclassifications	6,057,326	4,054,655	(5,291,038)	(4,789,397)	31,546
Translation adjustment	(107,095)	(299,725)	(37,595)	(155,710)	(600,125)
Disposals	—	(122,231)	(47,621)	—	(169,852)
<b>Balance as at December 31, 2014</b>	<b>₱56,345,109</b>	<b>₱146,933,481</b>	<b>₱25,125,352</b>	<b>₱38,807,826</b>	<b>₱267,211,768</b>
<b>Accumulated Depreciation, Amortization and Impairment Loss</b>					
Balance as at December 31, 2012	₱916,514	₱24,018,736	₱10,700,594	₱123,564	₱35,759,408
Depreciation and amortization	155,598	3,788,648	1,795,066	—	5,739,312
Reclassifications	(493,837)	8,730,336	1,059,532	—	9,296,031
Translation adjustment	47,656	783,816	76,446	—	907,918
Disposals	(41)	(12,698,071)	(1,151,131)	—	(13,849,243)
Balance as at December 31, 2013	625,890	24,623,465	12,480,507	123,564	37,853,426
Depreciation and amortization	304,954	4,411,548	1,901,886	—	6,618,388
Reclassifications	1,006,644	930,670	(276,046)	—	1,661,268
Translation adjustment	(9,031)	(43,422)	(15,047)	—	(67,500)
Reversal of impairment loss	(199,708)	—	—	—	(199,708)
Disposals	—	(49,968)	(33,852)	—	(83,820)
<b>Balance as at December 31, 2014</b>	<b>₱1,728,749</b>	<b>₱29,872,293</b>	<b>₱14,057,448</b>	<b>₱123,564</b>	<b>₱45,782,054</b>
<b>Net Book Value</b>					
<b>As at December 31, 2014</b>	<b>₱54,616,360</b>	<b>₱117,061,188</b>	<b>₱11,067,904</b>	<b>₱38,684,262</b>	<b>₱221,429,714</b>
<b>As at December 31, 2013</b>	<b>39,512,099</b>	<b>110,607,737</b>	<b>16,282,799</b>	<b>26,206,554</b>	<b>192,609,189</b>

As at December 31, 2014 and 2013, the allowance for impairment loss on land and improvements and land use rights, and construction in progress amounted to ₱723.6 million and ₱923.3 million, respectively. Allowance for impairment loss amounting to ₱199.7 million was reversed in 2014 (see Note 24).

Included under “Land” account are the 212,119 square meters of real estate properties with a carrying value of ₱488.0 million and ₱494.0 million as at December 31, 2014 and 2013, respectively, and a fair value of ₱13,531.0 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827.0 million paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under “Investment properties” account and a corresponding liability equivalent to the same amount is shown as part of “Tenants’ deposits and others” account in the consolidated balance sheets.



Portions of investment properties located in China with carrying value of nil and ₱5,001.0 million as at December 31, 2014 and 2013, respectively, and estimated fair value of ₱20,109.0 million as at December 31, 2013, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱32,845.9 million, ₱27,929.4 million and ₱24,695.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱20,249.6 million, ₱17,075.0 million and ₱15,088.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱30,870.0 million and ₱18,279.0 million, and landbanking and commercial building constructions amounting to ₱7,746.0 million and ₱5,080.0 million as at December 31, 2014 and 2013, respectively.

In 2014, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa.

Shopping mall complex under construction includes cost of land amounting to ₱6,576.0 million and ₱2,149.0 million as at December 31, 2014 and 2013, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱81,977.0 million and ₱82,058.0 million as at December 31, 2014 and 2013, 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 ₱17,272.0 million and ₱28,857.0 million as at December 31, 2014 and 2013, respectively.

Interest capitalized to the construction of investment properties amounted to ₱51.0 million and ₱77.1 million in 2014 and 2013, respectively. Capitalization rates used ranged from 4.61% to 5.99% and 5.83% to 7.20% for the years ended December 31, 2014 and 2013, respectively.

The fair value of the investment properties amounting to ₱571,848.0 million and ₱555,039.4 million as at December 31, 2014 and 2013, respectively, was determined by accredited independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While appraisal was not done for all investment properties as at December 31, 2014, the Group believes that there were no conditions present in 2014 that would significantly reduce the fair value of investment properties from that determined on the most recent valuation.

In conducting the appraisal, the independent appraisers used either the Sales Comparison/ Market Data Approach or the Income Approach. The Sales Comparison/ Market Data Approach is a method of comparing prices paid for comparable properties sold or offered for sale in the market against the subject property. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.



The fair value disclosures of the investment properties are categorized under Level 3 as these were based on unobservable inputs.

## 16. Land and Development and Condominium Units for Sale

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Condominium units for sale (see Note 11)	<b>₱7,600,260</b>	₱6,213,523
Land and development:		
Current portion (see Note 11)	<b>19,571,526</b>	12,542,783
Noncurrent portion	<b>26,629,864</b>	25,666,930
	<b>₱53,801,650</b>	₱44,423,236

### Condominium Units for Sale

Condominium units for sale pertain to completed projects of SMDC, HPI, Costa and ICDC.

	2014	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>₱6,213,523</b>	₱2,670,943
Transfer from land and development	<b>4,153,333</b>	7,332,175
Recognized as costs of real estate sold	<b>(2,766,596)</b>	(4,183,500)
Additions	—	393,905
Balance at end of year	<b>₱7,600,260</b>	₱6,213,523

The condominium units for sale are stated at cost as at December 31, 2014 and 2013. There is no allowance for inventory write-down as at December 31, 2014 and 2013.

### Land and Development

Land and development include land and cost of ongoing condominium projects.

	2014	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>₱38,209,713</b>	₱30,197,862
Development cost incurred	<b>14,840,948</b>	15,280,134
Recognized as costs of real estate sold	<b>(9,579,931)</b>	(7,727,066)
Land acquisition	<b>6,883,083</b>	5,483,396
Transfer to condominium units for sale	<b>(4,153,333)</b>	(7,332,175)
Borrowing cost capitalized	<b>690,462</b>	867,258
Transfer from (to) property and equipment and others (see Note 14)	<b>(689,552)</b>	1,440,304
Balance at end of year	<b>46,201,390</b>	38,209,713
Less current portion (see Note 11)	<b>19,571,526</b>	12,542,783
Noncurrent portion	<b>₱26,629,864</b>	₱25,666,930

The average rates used to determine the amount of borrowing costs eligible for capitalization ranged from 3.9% to 4.9% in 2014 and 3.8% to 5.1% in 2013.



SMDC

Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱31,912.0 million and ₱32,645.0 million as at December 31, 2014 and 2013, respectively.

Costa

Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱290.0 million and ₱400.0 million as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the development of macro-infrastructure is still ongoing.

HPI

Estimated cost to complete HPI's ongoing projects amounted to ₱1,181.0 million and ₱1,364.0 million as at December 31, 2014 and 2013, respectively.

ICDC

Land and development costs attributable to ICDC pertain to the ongoing Susana Heights Subdivision project. Estimated cost to complete the project amounted to ₱759.5 million and ₱881.6 million as at December 31, 2014 and 2013, respectively.

Land and development are stated at cost as at December 31, 2014 and 2013. There is no allowance for inventory write-down as at December 31, 2014 and 2013.

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**17. Intangibles and Other Noncurrent Assets**

Intangible Assets

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Goodwill	<b>₱16,270,060</b>	₱14,221,912
Less accumulated impairment loss	<b>91,619</b>	91,619
Net book value	<b>16,178,441</b>	14,130,293
Trademarks and brand names	<b>6,124,762</b>	6,124,762
	<b>₱22,303,203</b>	₱20,255,055

Goodwill is allocated to SM Prime, Supervalve, Inc. (SVI), Super Shopping Market, Inc. (SSMI), PMI, the Net Group and WSI and others as separate CGUs.

Trademarks and brand names pertain to that of the supermarket and hypermarket business of the Group which was acquired in a business combination in 2006. The trademarks and brand names were assessed to have an indefinite life and was valued using the Relief-from-Royalty Method. The royalty rate was 3.5%, which was the prevailing royalty rate in 2006 in the retail assorted category where the two entities fall.



The recoverable amount of goodwill, trademarks and brand names have been determined based on value-in-use calculations using the cash flow projections from the financial budgets approved by senior management covering a three-year period and fair value less costs of disposal calculations of the underlying net assets of the CGUs.

*Value-in-use.* The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 13.55% to 13.66% and 12.30% to 12.34% as at December 31, 2014 and 2013, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2014 and 2013 to materially exceed its recoverable amount.

*Fair value less cost of disposal.* The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2014 and 2013 to materially exceed its recoverable amount.

#### Other Noncurrent Assets

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Receivables from real estate buyers (see Note 10)	<b>₱8,341,583</b>	₱10,636,503
Deposits and advance rentals	<b>5,483,200</b>	6,362,347
Derivative assets (see Notes 29 and 30)	<b>2,555,708</b>	2,643,487
Deferred input VAT	<b>2,042,045</b>	2,440,933
Advances for project development (see Note 22)	<b>48,270</b>	3,607,169
Defined benefit asset (see Note 26)	<b>561,160</b>	615,982
Escrow fund (see Note 22)	<b>132,460</b>	556,206
Long-term note (see Note 22)	—	218,124
Others	<b>2,337,416</b>	1,372,704
	<b>₱21,501,842</b>	<b>₱28,453,455</b>

- Deposits and advance rentals substantially pertain to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to future rentals. Consequently, the said deposits and advance rentals are not remeasured at amortized cost.
- Long-term note pertains to an unquoted and unsecured subordinated debt instrument which carry a fixed interest rate of 7.5% and is payable quarterly in arrears. The long-term note will mature on March 20, 2019. On March 21, 2014, the long-term note was redeemed by the issuer. Interest income earned from this note is disclosed in Note 25.



- Escrow fund pertains mainly to the amounts deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. Escrow fund in 2014 and 2013 also include deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

## 18. Bank Loans

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Parent Company:		
U.S. dollar-denominated loans	<b>₱1,341,600</b>	₱2,219,750
Peso-denominated loans	—	6,550,000
Subsidiaries -		
Peso-denominated loans	<b>12,551,041</b>	18,818,509
	<b>₱13,892,641</b>	<b>₱27,588,259</b>

The U.S. dollar-denominated loans amounting to US\$30.0 million and US\$50.0 million with peso equivalent of ₱1,341.6 million and ₱2,219.8 million as at December 31, 2014 and 2013, respectively, bear fixed interest rates ranging from 1.08% to 1.79%.

The peso-denominated loans bear annual interest rates ranging from 2.00% to 4.40% and 1.06% to 6.75% in 2014 and 2013, respectively.

These loans have maturities of less than one year (see Note 29).

Interest on bank loans is disclosed in Note 25.

## 19. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
	<i>(In Thousands)</i>	
Trade	<b>₱44,292,704</b>	₱39,580,013
Nontrade	<b>6,561,399</b>	8,013,509
Accrued expenses	<b>5,372,054</b>	3,967,472
Payable arising from acquisition of land	<b>3,603,261</b>	4,838,686
Payable to government agencies	<b>2,687,879</b>	3,671,601
Accrued interest	<b>1,606,536</b>	1,784,520
Due to related parties (see Note 22)	<b>1,601,703</b>	2,091,305
Derivative liabilities (see Notes 29 and 30)	<b>1,092,382</b>	845,429
Gift checks redeemable and others	<b>3,043,147</b>	3,295,792
	<b>₱69,861,065</b>	<b>₱68,088,327</b>

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 on 30-to 60-day terms.



- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to due to related parties is discussed in Note 22.
- Gift checks are redeemable at face value.





## 20. Long-term Debt

This account consists of:

	Availment date	Maturity date	Interest rate/Term	Security	2014	2013
					(In Thousands)	
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds						
US\$350.0 million senior bonds	June 10, 2014	June 10, 2024	Fixed 4.88% ; semi-annual	Unsecured	₱15,652,000	₱—
US\$500.0 million senior bonds	October 17, 2012	October 17, 2019	Fixed 4.25% ; semi-annual	Unsecured	22,360,000	22,197,500
US\$400.0 million exchanged bonds	October 13, 2010	October 13, 2017	Fixed 5.50% ; semi-annual	Unsecured	17,258,109	17,023,867
US\$500.0 million bonds	September 22, 2009	September 22, 2014	Fixed 6.00% ; semi-annual	Unsecured	—	16,832,631
Convertible bonds						
US\$250.0 million convertible bonds	February 15, 2012	February 15, 2017	Fixed 1.625% ; semi-annual	Unsecured	3,695,290	3,732,919
US\$300.0 million five-year term loans	June 19, 2013; July 2, 2013	May 15, 2018	Floating six-month LIBOR + margin ; semi-annual	Unsecured	13,416,000	13,318,500
Peso-denominated:						
Seven-year and ten-year retail bonds						
Series C Bonds	July 16, 2012	July 16, 2019	Fixed 6.00% ; semi-annual	Unsecured	4,648,460	5,023,460
Series D Bonds	July 16, 2012	July 16, 2022	Fixed 6.94% ; semi-annual	Unsecured	7,683,810	8,058,810
Series E Bonds	May 19, 2014	May 19, 2021	Fixed 5.30% ; semi-annual	Unsecured	11,669,620	—
Series F Bonds	May 19, 2014	May 19, 2024	Fixed 5.61% ; semi-annual	Unsecured	3,330,380	—
Five-year and seven-year retail bonds						
Series A Bonds	June 25, 2009	June 26, 2014	Fixed 8.25% ; semi-annual	Unsecured	—	8,400,000
Series B Bonds	June 25, 2009	June 25, 2016	Fixed 9.10% ; semi-annual	Unsecured	1,000,000	1,000,000
Bank loans collateralized with time deposits	January 8, 2010	January 8, 2015	Floating three-month PDST-F + margin ; quarterly	Secured	—	3,000,000
Other peso bank loans	October 30, 2007 - June 30, 2014	October 30, 2014 - June 23, 2024	Fixed 4.39%-5.4% and PDST-F + margin	Unsecured	20,195,650	9,350,000
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	May 6, 2011 - September 12, 2014	March 21, 2016 - April 14, 2019	LIBOR + spread ; semi-annual	Unsecured	43,825,600	34,184,150
Two-year, three-year and five-year bilateral loans	November 30, 2010 - December 7, 2012	November 30, 2015 - August 30, 2017	LIBOR + spread ; semi-annual	Unsecured	4,472,000	4,439,500
Other U.S. dollar loans	November 20, 2013	November 20, 2018	LIBOR + spread ; semi-annual	Unsecured	1,118,000	1,109,875

(Forward)



	Availment date	Maturity date	Interest rate/Term	Security	2014	2013
					<i>(In Thousands)</i>	
China Yuan Renminbi-denominated:						
Three-year loan	March 28, 2011	March 27, 2014	CBC rate less 5% ; quarterly	Secured	₱—	₱961,827
Five-year loan	August 26, 2009 - August 27, 2010	July 14, 2014 - August 4, 2015	CBC rate less 10% ; quarterly	Secured	—	2,235,771
Peso-denominated:						
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 - September 1, 2024	Fixed 5.10%-5.74% ; quarterly	Unsecured	18,273,240	—
Fixed rate term loans	December 27, 2012 - December 29, 2014	December 23, 2015 - June 25, 2023	Fixed 4.00%-5.88% ; semi-annual and quarterly	Unsecured	23,323,000	19,390,000
	July 12, 2014 - July 31, 2014	July 12, 2021 - July 31, 2021	Fixed 5.25%-5.27% ; quarterly	Secured	3,000,000	—
Five-year and ten-year notes	June 19, 2012	June 20, 2017 - June 19, 2022	Fixed 6.22%-6.81% ; PDST-F+margin ; quarterly	Unsecured	7,301,000	7,375,500
Five-year, seven-year and ten-year notes	January 12, 2012	January 13, 2017 - January 12, 2022	Fixed 5.86%-6.10% ; PDST-F+margin ; quarterly	Unsecured	4,272,800	4,316,400
Five-year, seven-year and ten-year corporate notes	December 20, 2010 - June 13, 2011	December 21, 2015 - December 20, 2020	Fixed 5.79%-6.65% ; PDST-F+margin ; quarterly	Unsecured	6,528,000	6,596,000
Ten-year corporate notes	April 14, 2009	April 14, 2019	Fixed 10.11% ; quarterly	Unsecured	—	1,100,000
Five-year floating rate notes	March 18, 2011 - November 28, 2014	March 19, 2016 - November 28, 2019	PDST-F + margin ; quarterly	Unsecured	5,650,000	4,900,000
Corporate notes	June 3, 2013 - June 28, 2014	June 3, 2020 - June 3, 2023	Fixed 5.25%-5.88% ; semi-annual	Unsecured	8,691,800	8,200,000
Five-year bilateral loans	February 2, 2010 - October 24, 2011	February 2, 2015 - October 24, 2016	Fixed 5.00% ; PDST-F+margin ; quarterly	Unsecured	538,800	617,600
Five-year term loans	September 10, 2009 - April 13, 2010	September 10, 2014 - April 13, 2015	5.00%-5.69% ; quarterly	Secured	—	1,600,000
Other bank loans	August 15, 2006 - June 29, 2010	October 16, 2014 - August 15, 2016	Fixed 9.75% ; PDST-F+margin ; semi-annual and quarterly	Unsecured	1,985,280	6,993,460
					249,888,839	211,957,770
Less debt issue cost					2,106,176	1,801,733
					247,782,663	210,156,037
Less current portion					10,669,108	34,566,619
					₱237,113,555	₱175,589,418



## ***Parent Company***

### **Fixed Rate Bonds**

#### ***US\$400.0 million Exchanged Bonds***

This issuance is comprised of US\$186.3 million, additional bonds, US\$82.9 million, and US\$130.8 million exchanged bonds from the existing US\$350.0 million 6.75% bonds due 2013 and US\$500.0 million 6.00% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%). The carrying amount of the bonds amounted to ₱17,258.1 million and ₱17,023.9 million as at December 31, 2014 and 2013, respectively.

### **Convertible Bonds**

#### ***US\$250.0 million Convertible Bonds***

The convertible bonds have a yield-to-maturity of 2.875% at inception and are due on its maturity at 106.67%. The bonds contain multiple embedded derivatives which were bifurcated at inception (see Note 30).

- Conversion option - Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for the Parent Company's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US\$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2014 and 2013, the bondholders of US\$1.0 million (₱37.6 million) and US\$150.8 million (₱5,778.9 million) opted to convert their holdings into 68,378 and 8,390,334 of SMIC's shares, respectively (see Note 21).
- Put option - entitles the bondholders to require the Parent Company to redeem all or some of its bonds on February 15, 2015 (put date) at 103.89%.
- Call option - gives to the Parent Company the right to redeem the Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into U.S. dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

### **Five-year U.S. Dollar Loans**

Portion of the loan amounting to US\$180.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

### **Seven-year and Ten-year Retail Bonds**

#### ***Series C Bonds***

At various dates in 2014 and 2013, the Parent Company redeemed ₱375.0 million and ₱1,317.7 million, respectively.



#### *Series D Bonds*

At various dates in 2014 and 2013, the Parent Company redeemed ₱375.0 million and ₱600.0 million, respectively.

#### Bank Loans Collateralized with Time Deposits

At various dates in 2014, the Parent Company pre-terminated ₱3,000.0 million of loans. These loans are collateralized by a portion of the Parent Company's time deposits amounting to US\$475.0 million with peso equivalents of ₱21,087.6 million as at December 31, 2013 (see Note 8).

#### Other Peso Bank Loans

- In June 2014, the Parent Company obtained two seven-year term loans amounting to ₱1,600.0 million and ₱1,650.0 million. The annual principal repayment of ₱1.0 million will commence on the 12<sup>th</sup> month from issue date, with the last installment payment to be made at maturity date.
- In August 2013, the Parent Company obtained a seven-year term loan amounting to ₱2,000.0 million. The principal repayment of ₱2.0 million commenced on the 12<sup>th</sup> month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2014 and 2013 amounted to ₱1,998.0 million and ₱2,000.0 million, respectively.
- In April 2013, the Parent Company obtained a seven-year and ten-year term loans amounting to ₱2,250.0 million and ₱100.0 million. The annual principal repayment of ₱2.25 million and ₱0.10 million, respectively, commenced on the 12<sup>th</sup> month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2014 and 2013 amounted to ₱2,247.75 million and ₱99.9 million, respectively.

#### *Subsidiaries*

#### U.S. Dollar-denominated Five-Year Term Loans

This consists of the following:

- US\$300.0 million syndicated loan obtained on various dates in 2013. The loans bear interest rates based on the London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US\$150.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).
- US\$200.0 million syndicated loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

#### Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- ₱20.0 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036.0 million with a fixed interest rate of 5.10% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362.0 million with a fixed interest rate of 5.20% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602.0 million with a fixed interest rate of 5.74% per annum due on September 1, 2024.



China Yuan Renminbi-denominated Five-Year Loans

- ¥350.0 million loan obtained on August 26, 2009 to finance the construction of shopping malls. The loan is payable in semi-annual installments until July 2014. The loan has a floating rate with annual re-pricing at prevailing rates dictated by Central Bank of China (CBC) less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.
- ¥150.0 million loan obtained on August 27, 2010 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made in 2013 and prepaid in June 2014. The loan has a floating rate with annual re-pricing at prevailing rates dictated by CBC less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.

China Yuan Renminbi-denominated Three-Year Loan

¥187.0 million out of a ¥250.0 million loan facility obtained on March 28, 2011 to finance the construction of shopping malls. SM Prime prepaid the loans amounting to ¥132.0 million in 2014, ¥37.0 million in 2013 and ¥18.0 million in 2012. The loan has a floating rate with an annual re-pricing at prevailing rates dictated by CBC less 5%. The loan carries an interest rate of 6.20% in 2014 and 2013.

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 15).

Five-Year Term Loans

- Five-year term loans amounting to ₱1,600.0 million obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 5.69%. A portion of the loan is collateralized by AFS investments (see Note 12). Loans amounting to ₱1,582.0 million, ₱9.0 million and ₱9.0 million were prepaid in 2014, 2013 and 2012, respectively.

Debt Issue Costs

The movements in unamortized debt issue costs follow:

	2014	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,801,733	₱1,368,167
Additions	854,380	966,967
Amortization (see Notes 22 and 25)	(549,840)	(452,594)
Prepayments (see Notes 22 and 25)	(97)	(80,807)
Balance at end of year	₱2,106,176	₱1,801,733

Repayment Schedule

The repayment schedule of long-term debt follows:

	Gross Loan	Debt Issue Cost	Net
	<i>(In Thousands)</i>		
2015	₱11,012,230	(₱343,122)	₱10,669,108
2016	25,106,550	(267,548)	24,839,002
2017	29,623,048	(360,357)	29,262,691
2018	41,485,950	(353,531)	41,132,419
2019	47,306,410	(302,376)	47,004,034
2020	27,039,900	(28,983)	27,010,917
2021	26,844,540	(173,854)	26,670,686
2022	13,767,170	(61,817)	13,705,353
2023	4,518,960	(4,904)	4,514,056
2024	23,184,081	(209,684)	22,974,397
	₱249,888,839	(₱2,106,176)	₱247,782,663



### Covenants

The long-term debts of the Group contain certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence with financial ratios namely, (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2014 and 2013, the Group is in compliance with the terms of its debt covenants.

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## 21. Equity

### Capital Stock

#### a. Common stock

	Number of Shares	
	2014	2013
Authorized - ₱10 par value per share	<b>1,190,000,000</b>	1,190,000,000
Issued and subscribed:		
Balance at beginning of year	<b>796,272,268</b>	622,974,620
Issuances	<b>68,378</b>	173,297,648
Balance at end of year	<b>796,340,646</b>	796,272,268

On June 14, 2013, the SEC approved the increase in authorized capital stock of the Parent Company from ₱6,900.0 million to ₱11,900.0 million.

On August 1, 2013, the Parent Company entered into a Placement Agreement with certain shareholders and UBS AG, Hong Kong Branch (the "Placement Agent"), where the selling shareholders shall sell 7,250,000 common shares (the "Sale Shares") at ₱900.0 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

Simultaneously, the Parent Company entered into a Subscription Agreement with the selling shareholders, where the Parent Company agreed to issue new common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by the Selling Shareholders and the Selling Shareholders agreed to subscribe to the said shares.

The placement and subscription agreements increased "Capital stock" and "Additional paid-in capital" in the amount of ₱72.5 million and ₱6,370.6 million, respectively.

On various dates in 2014 and 2013, additional 68,378 common shares and 8,390,334 common shares, respectively, were issued as a result of conversion of the Parent Company's convertible bonds (see Note 20). The excess of the conversion price over par value totaling ₱47.2 million and ₱8,449.7 million in 2014 and 2013, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31 2014 and 2013, the Parent Company is compliant with the minimum public float as required by the PSE.



Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010 to March 13, 2012			
Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013			
Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24, 2013		157,000,000	10
July 12, 2013		657,314	10
July 18, 2013 to November 1, 2013			
Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014		68,378	625

The Parent Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company is 1,237 and 1,249 as at December 31, 2014 and 2013, respectively.

b. Redeemable preferred shares

	Number of shares	
	2014	2013
Authorized - ₱10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2014 and 2013.

Additional Paid-in Capital

	2014	2013
	<i>(In Thousands)</i>	
Paid-in subscriptions in excess of par value	₱57,602,588	₱57,555,394
Equity reserve from reissuance of common shares of a subsidiary	14,105,528	—
Disposal of Parent common shares held by subsidiaries	243,966	243,966
	₱71,952,082	₱57,799,360

On November 27, 2014, SM Prime reissued 1,060,000,000 common shares to its non-controlling shareholders for a total consideration of ₱17,645.7 million which resulted to an increase in "Non-controlling interests" of ₱3,540.2 million and an increase in "Additional paid-in capital" of ₱14,105.5 million as at December 31, 2014.



### Cost of Parent Common Shares Held by Subsidiaries

Details of the cost of common shares held by subsidiaries as at December 31, 2014, 2013 and 2012 follow:

	Shares held by subsidiaries	Average cost	Cost of common shares held by subsidiaries (In Millions)	Selling price per share	Gain on disposal (In Millions)
As at December 31, 2011	820,491	₱320.8	₱263.2	₱—	₱—
Sale by SM Land and MRDC	(430,000)	320.8	(137.3)	753.3	184.5
As at December 31, 2012	390,491	322.4	125.9	—	—
Stock dividends (25%)	97,623	—	—	—	—
Sale by SM Land	(389,612)	257.7	(100.5)	952.2	267.7
As at December 31, 2013 and 2014	98,502	₱257.7	₱25.4	₱—	₱—

### Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions mainly pertains to the acquisition of various SM China Companies by SM Prime in 2007 and various service companies by SM Retail in 2009. These acquisitions were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to the pooling of interest method.

In 2013, the Group executed a corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions.

### Retained Earnings

#### a. Appropriated

On December 14, 2012, the BOD approved the appropriation of ₱30,000.0 million retained earnings.

On April 25, 2013, the BOD approved to reverse ₱8,000.0 million of the appropriation.

As at December 31, 2014 and 2013, retained earnings appropriation is as follows:

Projects	Timeline	Appropriations (In Thousands)
Hotel projects	2013-2015	₱8,000,000
Commercial buildings	2012-2016	10,000,000
Acquisition of investments	2012-2018	9,000,000
		₱27,000,000





b. Unappropriated

The Parent Company's dividend declarations in 2014 and 2013 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
<b>April 30, 2014</b>	<b>May 30, 2014</b>	<b>June 26, 2014</b>	<b>₱10.34</b>	<b>₱8,233,455</b>
April 25, 2013	May 24, 2013	June 20, 2013	11.80	7,423,076

On April 25, 2013, the BOD approved the declaration of cash dividends of 118.0% of the par value or ₱11.80 per share for a total amount of ₱7,402.0 million in favor of stockholders on record as at May 24, 2013. This was paid on June 20, 2013. On the same date, the BOD approved the declaration of 25% stock dividends in favor of stockholders on record to be fixed by the SEC.

On June 24, 2013 and July 12, 2013, the SEC approved the issuance of 157,000,000 and 657,314 shares as stock dividends to stockholders on record as of July 8, 2013. The stock dividends were issued on August 1, 2013.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱137,756.2 million and ₱108,146.6 million as at December 31, 2014 and 2013, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

## 22. 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.

The significant transactions with related parties follow:

a. Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

b. Management and Service Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (related parties under common stockholders) for the management of certain office and mall premises. The Group also provides manpower and other services to related parties under common stockholder.

SMIC and SM Retail also receive management and service fees from retail entities under common stockholder for management, consultancy, manpower and other services.

c. Dividend Income

The Group earns dividend income from certain related parties under common stockholders.



d. Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

e. Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances as at and for the years ended December 31, 2014, 2013 and 2012 follow:

	Amount of Transactions			Outstanding Amount			Terms	Conditions
	2014	2013	2012	2014	2013	2012		
(In Thousands)								
Banking Group								
Cash placement and investment in debt securities	₱17,036,362	(₱14,392,658)	₱54,171,200	₱116,657,952	₱99,621,590	₱114,014,248	Interest-bearing; 0.2% to 5.4%	Unsecured; no impairment
Interest income	2,474,837	3,041,039	3,950,656	436,604	798,688	1,011,987	Interest-bearing; 0.2% to 5.4%	Unsecured; no impairment
Loans	(8,891,382)	(9,831,644)	(5,175,006)	13,298,618	22,190,000	32,021,644	Interest-bearing; 1.7% to 10.1%	Unsecured
Interest expense	1,211,036	794,208	859,134	38,903	41,054	286,719	Interest-bearing; 1.7% to 10.1%	Unsecured
Rent income	615,757	82,929	52,860	181,459	3,060	2,547	Noninterest-bearing	Unsecured; no impairment
Escrow fund	—	—	—	130,000	130,000	—	Noninterest-bearing	Unsecured; no impairment
Long-term notes	—	—	—	—	218,124	218,124	Noninterest-bearing	Unsecured; no impairment
Retail entities under common stockholders								
Rent income	3,959,364	4,451,749	4,002,084	1,708,815	2,591,384	1,516,066	Noninterest-bearing	Unsecured; no impairment
Management fee income	461,322	309,310	713,226	227,814	54,533	154,172	Noninterest-bearing	Unsecured; no impairment
Management fee expense	1,111,368	976,415	872,853	101,941	109,177	2,020	Noninterest-bearing	Unsecured; no impairment
Dividend income	510,685	716,384	552,768	871,103	719,861	292,917	Noninterest-bearing	Unsecured; no impairment
Service income	537,693	685,260	1,097	190,196	4,998	49,098	Noninterest-bearing	Unsecured; no impairment
Due from related parties	(139,977)	(1,131,895)	1,040,720	1,194,099	1,334,076	2,465,971	Noninterest-bearing	Unsecured
Due to related parties	(489,602)	(1,173,710)	530,600	1,601,703	2,091,305	3,265,015	Noninterest-bearing	Unsecured
Receivable for project development	(3,231,672)	147,529	1,962,578	—	3,231,672	3,084,143	Noninterest-bearing	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

For the years ended December 31, 2014 and 2013, the Group did not make any provision for impairment loss relating to amounts owed by related parties. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of Key Management Personnel of the Group

The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2014, 2013 and 2012 consist of short-term employee benefits amounting to ₱938.2 million, ₱777.3 million and ₱708.7 million, respectively, and post-employment benefits amounting to ₱109.0 million, ₱88.7 million and ₱144.4 million, respectively.



## 23. Cost of Merchandise Sales

This account consists of:

	2014	2013	2012
		<i>(In Thousands)</i>	
Merchandise inventories at beginning of year	<b>₱13,232,308</b>	₱13,402,762	₱13,436,456
Purchases	<b>152,567,479</b>	138,549,914	117,862,994
Total goods available for sale	<b>165,799,787</b>	151,952,676	131,299,450
Less merchandise inventories at end of year	<b>14,882,200</b>	13,232,308	13,402,762
	<b>₱150,917,587</b>	₱138,720,368	₱117,896,688

## 24. Selling, General and Administrative Expenses

This account consists of:

	2014	2013	2012
		<i>(In Thousands)</i>	
Personnel cost (see Notes 22 and 26)	<b>₱13,008,905</b>	₱12,033,212	₱10,942,505
Depreciation and amortization (see Notes 14 and 15)	<b>10,907,625</b>	9,513,584	8,057,871
Utilities	<b>9,308,009</b>	7,792,591	6,295,496
Rent (see Note 28)	<b>5,467,674</b>	5,252,339	4,876,327
Taxes and licenses	<b>5,036,077</b>	4,531,029	3,964,767
Marketing and selling	<b>3,374,252</b>	3,318,896	3,528,501
Outside services	<b>4,008,367</b>	3,163,822	2,802,479
Repairs and maintenance	<b>1,827,867</b>	1,172,705	1,062,124
Supplies	<b>1,313,288</b>	1,066,982	838,943
Management fees (see Note 22)	<b>1,195,192</b>	1,063,859	910,614
Insurance	<b>665,379</b>	552,183	470,633
Transportation and travel	<b>657,849</b>	502,028	436,156
Pension expense (benefit) (see Note 26)	<b>376,568</b>	(92,085)	235,499
Entertainment, representation and amusement	<b>325,712</b>	241,857	196,185
Professional fees	<b>319,384</b>	322,637	460,268
Data processing	<b>311,932</b>	206,183	98,472
Reversal of impairment loss and others (see Notes 10, 13 and 15)	<b>(288,547)</b>	(1,018,156)	(2,635,569)
Communications	<b>173,781</b>	163,989	122,666
Donations	<b>138,283</b>	115,605	297,629
Others	<b>1,953,710</b>	1,140,537	2,017,256
	<b>₱60,081,307</b>	₱51,043,797	₱44,978,822



## 25. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2014	2013	2012
	<i>(In Thousands)</i>		
Interest income on:			
Time deposits and short-term investments (see Note 8)	<b>₱2,059,817</b>	₱2,245,719	₱2,080,949
Cash in banks and temporary investments (see Note 7)	<b>484,169</b>	912,152	1,439,218
AFS investments (see Notes 9 and 17)	<b>380,399</b>	414,427	853,249
Investments held for trading (see Note 9)	<b>25,790</b>	28,310	43,330
Others	<b>82,460</b>	108,876	–
	<b>₱3,032,635</b>	₱3,709,484	₱4,416,746
Interest expense on:			
Long-term debt (see Note 20)	<b>₱10,801,337</b>	₱6,806,602	₱7,325,871
Bank loans (see Note 18)	<b>641,023</b>	3,960,390	3,253,656
Others (see Note 30)	<b>185,169</b>	176,409	232,209
	<b>₱11,627,529</b>	₱10,943,401	₱10,811,736

## 26. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense recognized under “Personnel cost” (see Note 24)

	2014	2013	2012
	<i>(In Thousands)</i>		
Net benefit expense:			
Current service cost	<b>₱405,822</b>	₱350,898	₱263,106
Net interest cost (income)	<b>(28,952)</b>	(39,409)	192,132
Expected return on plan assets	–	–	(198,954)
Others	<b>(302)</b>	(403,574)	(20,785)
	<b>₱376,568</b>	(₱92,085)	₱235,499



Changes in the net defined benefit liability and asset

a. Net Defined Benefit Liability

The movements in the subsidiaries' pension plan which resulted in a defined benefit liability as at December 31, 2014, 2013 and 2012 follow:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not recognized due to asset limit/ Unrecognized actuarial loss	Defined benefit liability (asset)
<i>(In Thousands)</i>				
At December 31, 2012	₱276,936	₱302,376	₱53,750	₱28,310
Net benefit expense (see Note 24):				
Current service cost	110,200	—	—	110,200
Net interest cost	72,057	71,822	—	235
Others	—	—	(75,238)	(75,238)
	182,257	71,822	(75,238)	35,197
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	8,036	—	(8,036)
Actuarial changes arising from:				
Changes in financial assumptions	(54,605)	—	—	(54,605)
Changes in demographic assumptions	9,926	—	—	9,926
Experience adjustment	157,713	—	—	157,713
Others	—	—	181,189	181,189
	113,034	8,036	181,189	286,187
Reclassifications from defined benefit assets	898,493	878,655	—	19,838
Actual contributions	—	55,510	—	(55,510)
Benefits paid	(84,477)	(84,477)	—	—
Transfer from related parties	9,021	9,021	—	—
Other adjustments	—	—	(159,701)	(159,701)
At December 31, 2013	1,395,264	1,240,943	—	154,321
Net benefit expense(see Note 24):				
Current service cost	103,343	—	—	103,343
Net interest cost	58,595	55,857	27	2,765
Past service cost - curtailment	(302)	—	—	(302)
	161,636	55,857	27	105,806
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	25,866	—	(25,866)
Actuarial changes arising from:				
Changes in financial assumptions	89,724	—	—	89,724
Changes in demographic assumptions	(19,707)	—	—	(19,707)
Experience adjustment	79,270	—	—	79,270
Others	—	—	(13,772)	(13,772)
	149,287	25,866	(13,772)	109,649
Reclassifications from defined benefit assets	(462,424)	(389,293)	—	(73,131)
Actual contributions	—	114,978	—	(114,978)
Benefits paid	(29,424)	(29,424)	—	—
Transfer from (to) related parties	8,158	8,158	—	—
Other adjustments	17,155	3,320	13,745	27,580
At December 31, 2014	₱1,239,652	₱1,030,405	₱—	₱209,247



b. Net Defined Benefit Asset

The movements in the subsidiaries' pension plan which resulted in a defined benefit asset as at December 31, 2014, 2013 and 2012 follow:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not recognized due to asset limit/ Unrecognized actuarial loss	Defined benefit liability (asset)
<i>(In Thousands)</i>				
At December 31, 2012	₱3,234,528	₱3,967,810	₱280,372	(₱452,910)
Net benefit expense (see Note 24):				
Current service cost	240,698	—	—	240,698
Net interest income	145,294	189,689	4,751	(39,644)
Effect of asset limit	—	—	445	445
Others	—	—	(328,781)	(328,781)
	385,992	189,689	(323,585)	(127,282)
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	55,722	—	(55,722)
Actuarial changes arising from:				
Changes in financial assumptions	(154,212)	—	—	(154,212)
Changes in demographic assumptions	54,555	—	—	54,555
Experience adjustment	105,933	—	—	105,933
Others	—	—	(35,437)	(35,437)
	6,276	55,722	(35,437)	(84,883)
Reclassifications to defined benefit assets	(898,493)	(878,655)	—	(19,838)
Actual contributions	—	71,661	—	(71,661)
Benefits paid	(166,950)	(166,950)	—	—
Transfer to the plan	(4,855)	(4,855)	—	—
Amount not recognized due to asset limit	—	—	86,531	86,531
Other adjustments	84,395	108,984	78,650	54,061
At December 31, 2013	2,640,893	3,343,406	86,531	(615,982)
Net benefit expense (see Note 24):				
Current service cost	302,479	—	—	302,479
Net interest income	195,115	232,299	5,467	(31,717)
	497,594	232,299	5,467	270,762
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	124,890	—	(124,890)
Actuarial changes arising from:				
Changes in financial assumptions	(130,985)	—	—	(130,985)
Changes in demographic assumptions	214	—	—	214
Experience adjustment	54,138	—	—	54,138
Others	—	—	(38,009)	(38,009)
	(76,633)	124,890	(38,009)	(239,532)
Reclassifications from defined benefit liabilities	462,426	389,294	—	73,132
Actual contributions	—	48,199	—	(48,199)
Benefits paid	(123,046)	(123,046)	—	—
Transfer to the plan	(6,455)	(6,455)	—	—
Amount not recognized due to asset limit	—	—	52,647	52,647
Other adjustments	(1,749)	(1,749)	(53,988)	(53,988)
At December 31, 2014	₱3,393,030	₱4,006,838	₱52,648	(₱561,160)



The principal assumptions used in determining the pension obligations of the Group follow:

	2014	2013
Discount rate	4%-6%	4%-6%
Future salary increases	3%-10%	10%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts and estimated fair values of the Plan assets follow:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In Thousands)</i>				
Cash and cash equivalents	₱251,447	₱251,447	₱117,834	₱117,834
Investment in debt and other securities	948,725	948,725	714,898	714,898
Investment in common trust funds	1,968,692	1,968,692	1,723,165	1,723,165
Investment in equity securities	181,087	181,087	123,443	123,443
Investment in government securities	1,651,825	1,651,825	1,865,037	1,865,037
Others	35,467	35,467	39,972	39,972
	<b>₱5,037,243</b>	<b>₱5,037,243</b>	<b>₱4,584,349</b>	<b>₱4,584,349</b>

- Cash and cash equivalents include regular savings and time deposits;
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.38% to 6.80% and 5.45% to 8.46% have maturities from June 2019 to April 2025 and April 2014 to September 2022 in 2014 and 2013, respectively;
- Investment in common trust funds consists of unit investment trust fund placements;
- Investment in equity securities consists of listed and unlisted equity securities;
- Investments in government securities consist of retail treasury bonds that bear interest ranging from 3.50% to 10.69% and 5.00% to 11.14% have maturities from February 2015 to October 2037 and July 2013 to October 2037 in 2014 and 2013, respectively; and
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank, as at and for the years ended December 31, 2014 and 2013, follow:

	2014	2013
<i>(In Thousands)</i>		
Balances:		
Cash and cash equivalents	₱160,743	₱110,392
Investment in common trust funds	1,968,692	1,723,165
Transactions:		
Interest income from cash and cash equivalents	2,209	3,456
Gains from investment in common trust funds	1,341,211	54,711

The Group expects to contribute about ₱156.5 million to its Pension Plan in 2015.



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, 2014, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation <i>(In Thousands)</i>
Discount rates	50 (50)	(₱317,143) 351,951
Future salary increases	100 (100)	663,825 (556,521)
No attrition of rates	—	3,904,889

The average duration of the Group's defined benefit obligation is 7 to 32 years and 8 to 32 years as at December 31, 2014 and 2013, respectively.

The maturity analysis of the undiscounted benefit payments, as at December 31, 2014 and 2013, follows:

	2014	2013
	<i>(In Thousands)</i>	
Less than 1 year to 5 years	<b>₱1,026,703</b>	₱728,485
More than 5 years to 10 years	<b>1,860,607</b>	1,850,314
More than 10 years to 15 years	<b>3,327,144</b>	3,028,577
More than 15 years to 20 years	<b>8,085,777</b>	8,217,238
More than 20 years	<b>174,975,720</b>	257,521,853

The Group has no specific matching strategies between the Plan assets and the defined benefit obligation.

## 27. Income Tax

The details of the Group's deferred tax assets and liabilities follow:

	2014	2013
	<i>(In Thousands)</i>	
Deferred tax assets - net:		
Unrealized gain on intercompany sale of investment property	<b>₱1,186,890</b>	₱1,201,479
NOLCO	<b>324,460</b>	122,118
Unrealized mark-to-market loss on investments	<b>240,224</b>	—
Deferred rent expense	<b>192,274</b>	504,342
Unamortized past service cost and defined benefit liability	<b>149,160</b>	201,080
Unrealized foreign exchange loss (gain) and others	<b>110,027</b>	(6,865)
Accrued leases	<b>64,062</b>	44,071
MCIT	<b>26,847</b>	106,574
	<b>2,293,944</b>	2,172,799
(Forward)		





	2014	2013
	<i>(In Thousands)</i>	
Deferred tax liabilities - net:		
Appraisal increment on investment property	<b>₱2,417,479</b>	₱2,276,990
Trademarks and brand names	<b>1,879,000</b>	1,879,000
Capitalized interest	<b>1,217,246</b>	1,614,650
Unrealized gross profit on sale of real estate	<b>877,069</b>	310,878
Accrued/deferred rent income	<b>165,333</b>	313,461
Unamortized past service cost and defined benefit asset	<b>147,970</b>	189,650
Others	<b>163,828</b>	385,898
	<b>₱6,867,925</b>	<b>₱6,970,527</b>

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertain to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, follow:

	2014	2013
	<i>(In Thousands)</i>	
NOLCO	<b>₱3,506,043</b>	₱—
Net unrealized foreign exchange loss	<b>798,763</b>	381,078
Allowance for impairment losses	<b>288,975</b>	488,683
Past service cost	<b>89,424</b>	54,917
MCIT	<b>78,596</b>	—
Defined benefit liability	<b>68,669</b>	65,597
Non-refundable advance rentals	<b>25,886</b>	24,920
	<b>₱4,856,356</b>	<b>₱1,015,195</b>

NOLCO and MCIT amounting to ₱86.4 million and ₱1,752.9 million were applied in 2014 and 2013, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax follow:

	2014	2013	2012
Statutory income tax rate	<b>30%</b>	30%	30%
Deduct income tax effects of reconciling items:			
Equity in net earnings of associates	<b>(9)</b>	(9)	(7)
Interest income subjected to final tax	<b>(2)</b>	(3)	(3)
Change in unrecognized deferred tax assets	<b>(2)</b>	(3)	—
Dividend income exempt from tax	—	(1)	(1)
Others	<b>(1)</b>	(2)	(3)
Effective income tax rates	<b>16%</b>	12%	16%



## 28. Lease Agreements

The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for a few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits (see Notes 29 and 30).

The future minimum lease receivables under the noncancellable operating leases of the Group as at December 31 follow:

	2014	2013
	<i>(In Millions)</i>	
Within one year	<b>₱3,385</b>	₱2,068
After one year but not more than five years	<b>8,616</b>	7,330
After five years	<b>1,939</b>	3,159
	<b>₱13,940</b>	<b>₱12,557</b>

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

The future minimum lease payables under the noncancellable operating leases of the Group as at December 31 follow:

	2014	2013
	<i>(In Millions)</i>	
Within one year	<b>₱744</b>	₱735
After one year but not more than five years	<b>3,138</b>	3,261
More than five years	<b>25,867</b>	27,330
	<b>₱29,749</b>	<b>₱31,326</b>

Tenant's deposits amounted to ₱14,032.0 million and ₱10,527.6 million as at December 31, 2014 and 2013, respectively.

## 29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits, short-term investments, cash and cash equivalents, non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.



The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are as follows:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.
- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make required payments.
- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

#### Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (see Note 30).

As at December 31, 2014 and 2013, after taking into account the effect of the swaps, approximately 68% and 63% of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

*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 Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.



	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		<i>(In Millions)</i>	
<b>2014</b>	<b>100</b>	<b>(₱727.2)</b>	<b>(₱220.4)</b>
	<b>50</b>	<b>(363.1)</b>	<b>(117.6)</b>
	<b>(100)</b>	<b>727.2</b>	<b>204.5</b>
	<b>(50)</b>	<b>363.1</b>	<b>94.8</b>
<b>2013</b>	<b>100</b>	<b>(836.4)</b>	<b>(129.8)</b>
	<b>50</b>	<b>(418.2)</b>	<b>(65.3)</b>
	<b>(100)</b>	<b>836.4</b>	<b>135.9</b>
	<b>(50)</b>	<b>418.2</b>	<b>67.5</b>

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.

#### Foreign Currency Risk

To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options (see Note 30) with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2014 and 2013 follow:

	2014		2013	
	US\$	PhP	US\$	PhP
	<i>(In Thousands)</i>			
Current assets:				
Cash and cash equivalents	\$8,913	₱398,607	\$5,999	₱266,316
Time deposits and short-term investments	201,000	8,988,720	705,501	31,320,708
AFS investments	22,065	986,742	5,250	233,074
Receivables	579,887	25,932,552	448,365	19,905,182
Noncurrent assets:				
AFS investments	109,129	4,880,255	124,785	5,539,822
Time deposits	1,031,407	46,124,510	585,000	25,971,075
Derivative assets	19,582	875,721	39,059	1,734,034
Total foreign currency-denominated financial assets	1,971,983	88,187,107	1,913,959	84,970,211
Current liabilities:				
Bank loans	30,000	1,341,600	50,000	2,219,750
Accounts payable and other current liabilities	35,097	1,569,553	34,985	1,553,191
Current portion of long-term debt	50,000	2,236,000	—	—
Noncurrent liabilities:				
Long-term debt - net of current portion	2,315,949	103,569,232	2,183,908	96,954,602
Derivative liabilities	1,313	58,705	3,603	159,974
Total foreign currency-denominated financial liabilities	2,432,359	108,775,090	2,272,496	100,887,517
Net foreign currency-denominated financial liabilities	\$460,376	₱20,587,983	\$358,537	₱15,917,306

As at December 31, 2014 and 2013, approximately 46.7% and 41.7% respectively, of the Group's total consolidated bank loans and long-term debt were denominated in U.S. dollars. Thus, appreciation of the Philippine peso against the U.S. dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.



The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱179.1 million, ₱59.4 million and ₱565.1 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2014, 2013 and 2012, respectively. This resulted from the movements of the closing rates of U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2012	₱41.05
December 31, 2013	44.40
December 31, 2014	44.72

*Foreign Currency Risk Sensitivity Analysis.* The sensitivity analysis for a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, follow:

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax (In Millions)
<b>2014</b>	<b>1.50</b>	<b>₱690.6</b>
	<b>1.00</b>	<b>460.4</b>
	<b>(1.50)</b>	<b>(690.6)</b>
	<b>(1.00)</b>	<b>(460.4)</b>
<b>2013</b>	<b>1.50</b>	<b>537.8</b>
	<b>1.00</b>	<b>358.5</b>
	<b>(1.50)</b>	<b>(537.8)</b>
	<b>(1.00)</b>	<b>(358.5)</b>

#### Liquidity Risk

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets. The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

As part of its liquidity risk management program, the Group 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, export credit agency-guaranteed facilities, debt capital and equity market issues.

The Group's financial assets, which have maturities of less than 12 months, and used to meet its short-term liquidity needs, include the following:

	2014	2013
	(In Thousands)	
Cash and cash equivalents	₱69,133,381	₱50,209,657
Current portion of time deposits and short-term investments	9,000,324	29,800,550
Investments held for trading	307,835	459,754
Current portion of AFS investments - Bonds and corporate notes	986,742	—



The maturity profile of the Group's financial liabilities as at December 31, 2014 and 2013 follows:

2014					
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>				
Bank loans	P=	P13,892,641	P=	P=	P13,892,641
Accounts payable and other current liabilities*	—	66,080,803	—	—	66,080,803
Long-term debt (including current portion)	—	15,266,474	168,584,633	120,127,455	303,978,562
Derivative liabilities:**					
Interest rate swaps	—	—	58,705	—	58,705
Multiple derivatives on convertible bonds	—	1,092,382	—	—	1,092,382
Dividends payable	—	264,882	—	—	264,882
Tenants' deposits	—	—	13,815,542	247,840	14,063,382
Other noncurrent liabilities	—	—	3,208,432	—	3,208,432
	P=	P96,597,182	P185,667,312	P120,375,295	P402,639,789
2013					
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>				
Bank loans	P=	P27,588,259	P=	P=	P27,588,259
Accounts payable and other current liabilities*	—	63,571,297	—	—	63,571,297
Long-term debt (including current portion)	—	38,296,386	138,091,911	66,216,033	242,604,330
Derivative liabilities:**					
Interest rate swaps	—	—	159,974	—	159,974
Multiple derivatives on convertible bonds	—	845,429	—	—	845,429
Dividends payable	—	210,189	—	—	210,189
Tenants' deposits	—	—	10,336,453	201,543	10,537,996
Other noncurrent liabilities	—	—	2,786,666	—	2,786,666
	P=	P130,511,560	P151,375,004	P66,417,576	P348,304,140

\* Excluding payable to government agencies of P2,687.9 million and P3,671.6 million at December 31, 2014 and 2013, respectively, the amounts of which are not considered as financial liabilities.

\*\* Based on estimated future cash flows.

\*\*\* Excluding nonfinancial liabilities amounting to P573.0 million and P469.0 million at December 31, 2014 and 2013, respectively.

### Credit Risk

The Group trades only with recognized and creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral. Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.



As at December 31, 2014 and 2013, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

#### Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

*High Quality.* This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk 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.

The credit analysis of the Group's financial assets as at December 31, 2014 and 2013 follows:

	2014			2013		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<i>(In Thousands)</i>						
Cash and cash equivalents (excluding cash on hand)	<b>₱67,964,569</b>	<b>₱—</b>	<b>₱67,964,569</b>	₱48,999,592	<b>₱—</b>	<b>₱48,999,592</b>
Time deposits and short-term investments (including noncurrent portion)	<b>56,124,324</b>	—	<b>56,124,324</b>	55,993,600	—	55,993,600
Investments held for trading - Bonds	<b>307,835</b>	—	<b>307,835</b>	459,754	—	459,754
AFS investments	<b>23,083,740</b>	<b>3,918</b>	<b>23,087,658</b>	17,154,400	3,918	17,158,318
Receivables - net (including noncurrent portion of receivables from real estate buyers)	<b>29,227,148</b>	<b>6,323,604</b>	<b>35,550,752</b>	30,313,594	5,802,860	36,116,454
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet)	<b>19,511,553</b>	—	<b>19,511,553</b>	13,649,588	—	13,649,588
Escrow fund (including noncurrent portion)	<b>800,238</b>	—	<b>800,238</b>	995,325	—	995,325
Long-term note (included under "Other noncurrent assets" account in the consolidated balance sheet)	—	—	—	218,124	—	218,124
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	<b>2,555,708</b>	—	<b>2,555,708</b>	2,643,487	—	2,643,487
	<b>₱199,575,115</b>	<b>₱6,327,522</b>	<b>₱205,902,637</b>	<b>₱170,427,464</b>	<b>₱5,806,778</b>	<b>₱176,234,242</b>

#### Equity Price Risk

Management monitors the equity securities in its investment portfolio 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 of a possible change in equity indices with all other variables held constant is as follows:

	Change in Equity Price	Effect on Equity After Income Tax <i>(In Millions)</i>
<b>2014</b>	<b>+9.0%</b>	<b>₱3,055.5</b>
	<b>-9.0%</b>	<b>(3,055.5)</b>
<b>2013</b>	<b>+9.0%</b>	<b>1,815.7</b>
	<b>-9.0%</b>	<b>(1,815.7)</b>

#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the following ratios and maintaining them at not lower than 50:50.

- Net interest-bearing debt divided by total capital plus net interest-bearing debt
- Interest-bearing debt divided by total capital plus interest-bearing debt.

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

	2014	2013
	<i>(In Thousands)</i>	
Bank loans	<b>₱13,892,641</b>	₱27,588,259
Long-term debt	<b>247,782,663</b>	210,156,037
Less:		
Cash and cash equivalents (excluding cash on hand)	<b>(67,964,569)</b>	(48,999,592)
Time deposits and short-term investments	<b>(56,124,324)</b>	(55,993,600)
AFS investments (bonds and corporate notes)	<b>(5,626,784)</b>	(5,539,822)
Investments held for trading - bonds	<b>(307,835)</b>	(459,754)
Long-term note included under "Other noncurrent assets" account	–	(218,124)
Total net interest-bearing debt (a)	<b>131,651,792</b>	126,533,404
Total equity attributable to owners of the Parent	<b>257,004,114</b>	219,433,817
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	<b>₱388,655,906</b>	₱345,967,221
Gearing ratio - net (a/b)	<b>34%</b>	37%





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

	2014	2013
	<i>(In Thousands)</i>	
Bank loans	<b>₱13,892,641</b>	₱27,588,259
Long-term debt	<b>247,782,663</b>	210,156,037
Total interest-bearing debt (a)	<b>261,675,304</b>	237,744,296
Total equity attributable to owners of the Parent	<b>257,004,114</b>	219,433,817
Total interest-bearing debt and equity attributable to owners of the Parent (b)	<b>₱518,679,418</b>	₱457,178,113
Gearing ratio - gross (a/b)	<b>50%</b>	52%

**30. Financial Instruments**

Fair Values

The carrying values and estimated fair values of the Group's financial assets and liabilities, by category and by class, except for those with carrying amounts that are reasonable approximations of fair value, as at December 31, 2014 and 2013 follow:

			2014		
	Carrying Value	Fair value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
Assets Measured at Fair Value					
Financial assets at FVPL -					
Derivative assets	₱2,555,708	₱2,555,708	₱–	₱2,555,708	₱–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits (including noncurrent portion)	56,124,324	60,280,655			60,280,655
Receivables - net (including noncurrent portion of receivables from real estate buyers)	39,351,403	39,264,893			39,264,893
	95,475,727	99,545,548	–	–	99,545,548
	₱98,031,435	₱102,101,256	₱–	₱2,555,708	₱99,545,548
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL -					
Derivative liabilities	₱1,151,087	₱1,151,087	₱–	₱58,705	₱1,092,382
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (including current portion and net of unamortized debt issue cost)	247,782,663	258,583,840	–	–	258,583,840
Tenants' deposits and others	21,406,013	16,956,141	–	–	16,956,141
	269,188,676	275,539,981	–	–	275,539,981
	₱270,339,763	₱276,691,068	₱–	₱58,705	₱276,632,363



		2013			
	Carrying Value	Fair value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
<b>Assets Measured at Fair Value</b>					
<b>Financial assets at FVPL -</b>					
Derivative assets	₱2,643,487	₱2,643,487	₱-	₱2,643,487	₱-
<b>Assets for which Fair Values are Disclosed</b>					
<b>Loans and receivables:</b>					
Time deposits (including noncurrent portion)	55,993,600	58,549,481	-	-	58,549,481
Receivables - net (including noncurrent portion of receivables from real estate buyers)	37,274,237	37,274,237	-	-	37,274,237
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	218,124	264,656	-	-	264,656
	93,485,961	96,088,374	-	-	96,088,374
	₱96,129,448	₱98,731,861	₱-	₱2,643,487	₱96,088,374
<b>Liabilities Measured at Fair Value</b>					
<b>Financial Liabilities at FVPL -</b>					
Derivative liabilities	₱1,005,403	₱1,005,403	₱-	₱159,974	₱845,429
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Other Financial Liabilities:</b>					
Long-term debt (including current portion and net of unamortized debt issue cost)	210,156,037	224,775,629	-	-	224,775,629
Tenants' deposits and others	17,967,224	13,047,622	-	-	13,047,622
	228,123,261	237,823,251	-	-	237,823,251
	₱229,128,664	₱238,828,654	₱-	₱159,974	₱238,668,680

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 as at December 31, 2014 and 2013.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used as at December 31 follow:

	2014	2013
Noncurrent portion of time deposits	0.28%-2.25%	0.18%-2.09%
Noncurrent portion of receivables from real estate buyers	5.20%	5.00%
Long-term note included under "Other noncurrent assets" account	-	0.01%-3.21%
Tenants' deposits	2.44%-5.22%	0.27%-4.51%



*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 0.26% to 5.32% and 0.02% to 4.76% as at December 31, 2014 and 2013, 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 1.70% to 4.00% and 0.50% to 3.80% as at December 31, 2014 and 2013, respectively.

*Derivative Assets and Liabilities.* The fair values of the interest rate swaps, cross-currency swaps, and non-deliverable forwards are based on quotes obtained from counterparties classified under Level 2 of the fair value hierarchy. The fair values of the embedded options relating to the Parent Company's convertible bonds were classified under Level 3 because the credit spread used as input to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values. The fair values of the embedded options were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Significant Unobservable Inputs to Valuation	Range
USD risk-free rate	0.057-0.796%
Credit spread	4.3540%

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

Increase (Decrease) in Credit Spread		Net Effect on Fair Values of Option
		(In Thousands)
<b>2014</b>	<b>100 bps</b>	<b>(P88,977)</b>
	<b>(100) bps</b>	<b>91,303</b>
2013	100 bps	(124,528)
	(100) bps	129,032



The rollforward analysis of the fair value changes of this financial instrument as at December 31, 2014 and 2013 follows:

	<b>2014</b>	2013
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>(P845,429)</b>	(P2,473,130)
Fair value changes	<b>(257,680)</b>	(1,335,209)
Conversions	<b>10,727</b>	2,962,910
Balance at end of year	<b>(P1,092,382)</b>	(P845,429)

#### Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The Group also has embedded derivatives bifurcated from the Parent Company's convertible bonds.



	Parent				SM Prime		Total
	Cross-currency Swaps	Options arising from Convertible Bonds	Foreign Currency Swap	Non-deliverable Forwards	Cross-currency Swaps	Interest Rate Swaps	Non-deliverable Forwards
	<i>(In Thousands)</i>						
Balance as at December 31, 2012	P=	(P2,473,130)	P=	P=	P=	(P134,351)	P=
Fair value changes:							
Interest income (expense)	—	—	—	—	(176,090)	51,209	—
Foreign currency exchange loss	—	(229,552)	—	—	—	—	—
Cumulative translation adjustments	864,677	—	—	—	1,668,399	—	—
Gain (loss) on fair value changes of derivatives	—	(1,105,657)	28,578	21,234	—	72,844	31,782
Transferred to additional paid-in capital	—	2,962,910	—	—	—	—	—
Fair value of settled derivatives	—	—	(28,578)	(21,234)	176,090	(39,264)	(31,782)
Balance as at December 31, 2013	864,677	(845,429)	—	—	1,668,399	(49,562)	—
Fair value changes:							
Interest income (expense)	—	—	—	—	(225,249)	(37,423)	—
Foreign currency exchange loss	—	(12,597)	—	—	—	—	—
Cumulative translation adjustments	58,217	—	—	—	(66,067)	—	—
Gain (loss) on fair value changes of derivatives	—	(245,083)	32,190	2,000	—	21,340	13,612
Transferred to additional paid-in capital	—	10,727	—	—	—	—	—
Fair value of settled derivatives	—	—	(32,190)	(2,000)	225,249	37,422	(13,612)
<b>Balance as at December 31, 2014</b>	<b>P922,894</b>	<b>(P1,092,382)</b>	<b>P=</b>	<b>P=</b>	<b>P1,602,332</b>	<b>(P28,223)</b>	<b>P=</b>
Derivative assets	P922,894	P=	P=	P=	P1,602,332	P30,482	P=
Derivative liabilities	—	(1,092,382)	—	—	—	(58,705)	—
	<b>P922,894</b>	<b>(P1,092,382)</b>	<b>P=</b>	<b>P=</b>	<b>P1,602,332</b>	<b>(P28,223)</b>	<b>P=</b>



### Derivative Instruments Accounted for as Cash Flow Hedges

*Cross-currency Swaps.* In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) (see Note 20).

Under the floating-to-fixed cross-currency swaps, the hedged U.S. dollar-denominated loans have been converted into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receive floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with interest payments on the hedged loans.

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 years ended December 31, 2014 and 2013.

Details of the hedged loans follow:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	(In Thousands)			
	(In US\$)	(In PhP)		
Parent -				
Unsecured loans	US\$180,000	₱8,049,600	6-month US LIBOR + 1.70%	May 15, 2018
SM Prime:				
Unsecured loan	US\$200,000	₱8,944,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,708,000	6-month US LIBOR + 1.70%	March 25, 2018

The Group's outstanding cross-currency swaps as at December 31, 2014 follow:

	Notional Amounts		Receive	Pay	US\$:₱ Rate	Maturity	Fair Value Gain
	(In Thousands) (In US\$)	(In Ph₱)					(In Thousands)
Parent:							
Floating-to-Fixed	US\$50,000	₱2,059,250	6M US LIBOR + 170 bps	4.05%	₱41.19	May 15, 2018	₱257,547
Floating-to-Fixed	60,000	2,478,000	6M US LIBOR + 170 bps	4.03%	41.30	May 15, 2018	303,580
Floating-to-Fixed	70,000	2,888,200	6M US LIBOR + 170 bps	3.98%	41.26	May 15, 2018	361,767
SM Prime:							
Floating-to-Fixed	150,000	6,100,500	6M US LIBOR + 170 bps	3.70%	40.67	January 29, 2018	711,066
Floating-to-Fixed	50,000	2,033,500	6M US LIBOR + 170 bps	3.70%	40.67	January 29, 2018	243,897
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	210,575
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	219,438
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	217,356



Other Derivative Instruments Not Designated as Accounting Hedges

The Group's interest rate swaps presented by maturity profile follow:

Year Obtained	Maturity	Interest Payment	<1 Year	Outstanding Notional Amount Receive	Pay	Aggregate Fair Value	
			(In Thousands)			2014	2013
<i>Floating-to-Fixed</i>							
2013	June 2015	Quarterly	₱349,440	3MPDST-F	3.65%-4.95%	(₱1,882)	(₱9,023)
2011	March 2015	Semi-annual	\$145,000	6 months	2.91%-3.28%	(37,535)	(113,601)
				LIBOR+margin%			
2011	November 2014	Semi-annual	\$20,000	6 months	3.53%	–	(10,431)
				LIBOR+margin%			
2010	November 2015	Semi-annual	\$30,000	6 months	3.18%	(19,288)	(35,941)
				LIBOR+margin%			
<i>Fixed-to-Floating</i>							
2010	June 2015	Quarterly	₱1,570,560	5.44%-7.36%	3MPDST-F	₱30,482	₱119,433

*Interest Rate Swaps.* In 2013, SM Prime entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175.0 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SM Prime's partial prepayment of the underlying Philippine peso loan (see Note 20). As at December 31, 2014 and 2013, these swaps have negative fair values of ₱2.0 million and ₱9.0 million, respectively.

In 2011, SM Prime entered into floating to fixed US\$ interest rate swap agreements with an aggregate notional amount of US\$145.0 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into a fixed rate loan with semi-annual payment intervals up to March 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swaps have aggregate negative fair values of ₱38.0 million and ₱114.0 million, respectively.

SM Prime also entered into a US\$ interest rate swap agreement with a notional amount of US\$20.0 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment intervals up to November 2014 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to a ₱10.0 million loss in 2014.

In 2010, SM Prime entered into the following interest rate swap agreements:

- A US\$ interest rate swap agreement with a nominal amount of US\$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment intervals up to November 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swap has a negative fair value of ₱19.0 million and ₱36.0 million, respectively.
- Two Philippine peso interest rate swap agreements with a notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at December 31, 2014 and 2013, the interest rate swaps have positive fair values of ₱31.0 million and ₱119.0 million, respectively.



In 2009, SM Prime entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$25.0 million. Under these agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral loan into a fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to a ₱10.0 million gain in 2013.

*US\$250.0 million Convertible Bonds.* The Parent Company's convertible bonds contain multiple embedded derivatives which were bifurcated and accounted for as a single compound derivative (see Note 20).

### 31. EPS Computation

	2014	2013	2012
	<i>(In Thousands, Except for Per Share Data)</i>		
Net income attributable to common owners of the Parent for basic earnings (a)	<b>₱28,398,584</b>	₱27,445,682	₱24,674,381
Effect on net income of convertible bonds, net of tax	—	—	—
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	<b>₱28,398,584</b>	₱27,445,682	₱24,674,381
<b>Weighted Average Number of Common Shares Outstanding</b>			
Weighted average number of common shares outstanding for the period, after retroactive effect of stock dividends declared in 2013 (c)	<b>796,317</b>	787,457	776,823
Dilutive effect of convertible bonds	—	—	—
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	<b>796,317</b>	787,457	776,823
<b>Basic EPS (a/c)</b>	<b>₱35.66</b>	₱34.85	₱31.76
<b>Diluted EPS (b/d)</b>	<b>₱35.66</b>	₱34.85	₱31.76

The effect of the convertible bonds on net income and on the number of shares in 2014 and 2013 were not considered due to its antidilutive effect, which if included, will result to an EPS of ₱35.77 and ₱36.34 in 2014 and 2013, respectively.

### 32. Non-cash Transactions

The Group's principal non-cash transaction under financing activities pertains to the conversion of the Parent Company's convertible bonds into common shares. Details of the conversion option of the convertible bonds and the conversions are in Note 20.

The Group's principal non-cash transaction under investing activities pertains to the acquisition of controlling interest in HPI in exchange for SM Prime common shares. Details of the corporate restructuring are in Note 5.





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**33. Events After the Reporting Period**

On various dates from January 1 to March 4, 2015, the bondholders of US\$55.2 million (₱2,468.5 million) opted to convert their holdings into 3,774,489 common shares. This resulted to an increase in capital stock and additional paid-in capital amounting to ₱37.7 million and ₱2,979.2 million, respectively, and a decrease in long-term debt and derivative liability of ₱2,055.1 million and ₱961.8 million, respectively.

On February 15, 2015, none of the bondholders of US\$98.2 million exercised their put option.

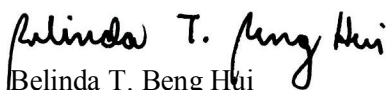


## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
SM Investments Corporation  
10th Floor, One E-Com Center  
Harbor Drive, Mall of Asia Complex  
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated March 4, 2015. 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 Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),

March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2012,

June 19, 2012, valid until June 18, 2015

PTR No. 4751259, January 5, 2015, Makati City

March 4, 2015



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE A – FINANCIAL ASSETS**  
**AS AT DECEMBER 31, 2014**  
**(Amounts in Thousands, Except Shares Data)**

<b>Name of Issuing Entity and Description of Each Issue</b>	<b>Number of Shares or Principal Amount of Bonds and Notes</b>	<b>Amount Shown in the Balance Sheet</b>	<b>Value Based on Market Quotations at Balance Sheet Date</b>	<b>Interest and Dividend Income Received and Accrued</b>
<b>Temporary investments:</b>				
BDO Unibank, Inc.		₱54,776,328	₱–	₱379,318
China Banking Corporation		875,525	–	1,097
Others		4,052,606	–	86,932
		59,704,459	–	467,347
<b>Time deposits – current and short-term investments</b>				
		9,000,324	–	178,530
<b>Investments held for trading and sale:</b>				
Bonds and Corporate Notes:				
Peso Bonds	₱65,186	68,473	68,473	7,439
Dollar Bonds	\$27,000	1,226,104	1,226,104	18,352
Shares of Stocks:				
Common shares:				
Shang Properties, Inc.	189,550,548 shares	625,517	625,517	25,589
Republic Glass Holdings Corporation	15,140,000 shares	34,973	34,973	3,785
PICOP Resources, Inc.	40,000,000 shares	8,200	8,200	–
Export and Industry Bank, Inc.	7,829,000 shares	2,035	2,036	–
Benguet Corporation	88,919 shares	750	750	–
Premium Leisure Corp.	1,041,839,000 shares	2,219,117	2,219,117	–

(Forward)

<b>Name of Issuing Entity and Description of Each Issue</b>	<b>Number of Shares or Principal Amount of Bonds and Notes</b>	<b>Amount Shown in the Balance Sheet</b>	<b>Value Based on Market Quotations at Balance Sheet Date</b>	<b>Interest and Dividend Income Received and Accrued</b>
Club shares:				
Tagaytay Midlands Golf Club, Inc.	11 shares	P5,280	P5,280	P–
		4,190,449	4,190,450	55,165
<b>Total Marketable Securities</b>		<b>P72,895,232</b>	<b>P4,190,450</b>	<b>P701,042</b>

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
<b>Available-for-Sale Investments – Noncurrent:</b>				
Shares of Stocks				
Listed:				
Ayala Corporation	20,987,551 shares	₱14,477,435	₱14,477,435	₱53,847
Manila Electric Company	58,925 shares	6,865	6,865	314
Philippine Long Distance Telephone Company	292,611 shares	3,020	3,020	652
Philippine Bank of Communications	13,431 shares	430	430	–
Keppel Philippines Holdings, Inc	–shares	–	–	207
Prime Media Holdings, Inc.	500,000 shares	675	675	–
Unlisted:				
Morrison Corporation	104,500 shares	10,450	–	127,775
Allfirst Equity Holdings, Inc.	95,000 shares	9,500	–	–
Forsyth Equity Holdings, Inc.	95,000 shares	9,500	–	54,055
Tangiers Resources Corp.	95,000 shares	9,500	–	129,770
San Mateo Bros., Inc.	85,500 shares	8,550	–	125,970
HFS Corporation	59,300 shares	16,799	–	73,084
Heavenly Garden Development Corp.	25,000 shares	2,500	–	–
SM Insurance Brokers Services, Inc.	129,390 shares	150	–	–
Mutual Development Center, Inc.	4,633 shares	1,259	–	–
Others		9	–	156
		14,556,642	14,488,425	565,830

(Forward)

<b>Name of Issuing Entity and Description of Each Issue</b>	<b>Number of Shares or Principal Amount of Bonds and Notes</b>	<b>Amount Shown in the Balance Sheet</b>	<b>Value Based on Market Quotations at Balance Sheet Date</b>	<b>Interest and Dividend Income Received and Accrued</b>
Bonds and corporate notes -				
Corporate Bonds	\$103,758	₱4,640,042	₱4,640,042	₱372,149
		4,640,042	4,640,042	372,149
Club Shares				
Cebu Golf & Country Club	1 share	5,000	5,000	—
Baguio Country Club	1 share	1,850	1,850	—
Country Club of Tagaytay Highlands	1 share	500	500	—
Mimosa Golf & Country Club, Inc.	1 share	450	450	—
Camp John Hay	2 shares	240	240	—
Subic Bay Yacht Club	1 share	160	160	—
Splendido Taal Golf Club	1 share	80	80	—
Calatagan Golf Club	1 share	30	30	—
Cresta del Mar	3 shares	35	35	—
Ridge Resort	1 shares	15	15	—
		8,360	8,360	—
		<b>19,205,044</b>	<b>19,136,827</b>	<b>937,979</b>
<b>Time Deposits – Noncurrent</b>	—	<b>47,124,000</b>	—	<b>1,881,287</b>
<b>Total Noncurrent Financial Assets</b>		<b>₱66,329,044</b>	<b>₱19,136,827</b>	<b>₱2,819,266</b>

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**AS AT DECEMBER 31, 2014**  
**(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>
<b><u>Accounts receivable – tenants</u></b>							
Sanford Marketing Corporation	₱26,830	₱176,126	₱173,850	₱–	₱29,106	₱–	₱29,106
Mainstream Business, Inc.	70,216	325,609	325,958	–	69,867	–	69,867
Market Strategic Firm, Inc.	65,324	292,702	283,283	–	74,743	–	74,743
Major Shopping Management Corporation	–	32,382	–	–	32,382	–	32,382
Metro Main Star Asia Corp.	–	210,656	157,280	–	53,376	–	53,376
Meridien Business Leader, Inc.	–	90,505	90,505	–	–	–	–
Madison Shopping Plaza, Inc.	53,842	245,190	234,837	–	64,195	–	64,195
Multi Stores Corporation	27,252	151,709	166,293	–	12,668	–	12,668
Mandurriao Star, Inc.	36,737	277,576	244,828	–	69,485	–	69,485
Metro Manila Shopping Mecca Corp.	15,245	160,209	127,676	–	47,778	–	47,778
Mercantile Stores Group, Inc.	75,261	294,597	295,357	–	74,501	–	74,501
Mindanao Shopping Destination Corp.	14,835	64,178	62,896	–	16,117	–	16,117
Manila Southern Associates, Inc.	52,119	239,324	229,335	–	62,108	–	62,108
My ShoppingLane Cebu Corp.	–	18,700	14,084	–	4,616	–	4,616
Mindanao Shoppers Daily Destination Corp.	14,788	22,176	31,866	–	5,098	–	5,098

(Forward)

<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 Mart, Inc.	₱98,426	₱462,453	₱468,552	₱—	₱92,327	₱—	₱92,327
Supervalue, Inc.	295,652	2,106,319	2,071,518	—	330,453	—	330,453
Super Shopping Market, Inc.	228,271	1,531,573	1,538,103	—	221,741	—	221,741
SM Retail, Inc.	13,585	67,120	66,467	—	14,238	—	14,238
Accessories_Management Corp.	396	1,321	1,629	—	88	—	88
CF_Mgt. Corp.	357	3,105	3,053	—	409	—	409
LF_Mgt. Corp.	369	2,739	2,740	—	368	—	368
Shoemart, Inc. (formerly LTBG_Mgmt. Corp.)	—	2,925	2,494	—	431	—	431
MF_Mgt. Corp.	—	3,057	2,661	—	396	—	396
MCLG_Mgmt. Corp.	236	1,016	1,052	—	200	—	200
Forever Agape and Glory, Inc.	—	145,854	145,854	—	—	—	—
HMS Development Corp.	—	1,502	1,502	—	—	—	—
Costa del Hamilo, Inc.	—	4,741	4,029	—	712	—	712
Summerhills Home Development Corp.	—	2,814	2,814	—	—	—	—
SM Arena Complex Corporation	—	1,383	1,383	—	—	—	—
Hotel Specialist (Tagaytay), Inc.	—	783	783	—	—	—	—
SM Development Corporation	157	805	962	—	—	—	—
Manila Southcoast Development Corp.	—	795	795	—	—	—	—
SM Prime Holdings, Inc.	5,953	66,350	71,841	—	462	—	462
SM Hotels and Conventions Corp.	45,678	5,464	50,293	—	849	—	849
(Forward)							



<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>
Highlands Prime, Inc.	P709	P5,477	P6,186	P–	P–	P–	P–
SM Investments Corporation	–	43,401	35,921	–	7,480	–	7,480
	<b>P1,142,238</b>	<b>P7,062,636</b>	<b>P6,918,680</b>	<b>P–</b>	<b>P1,286,194</b>	<b>P–</b>	<b>P1,286,194</b>

<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>
<b><u>Due from related parties</u></b>							
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	P930,930	P–	P–	P–	P930,930	P–	P930,930
Intercontinental Development Corporation	680,007	–	135,411	–	544,596	–	544,596
Mountain Bliss Resort and Development Corp.	2,659,406	–	–	–	2,659,406	–	2,659,406
SM Prime Holdings, Inc.	9,317,747	–	6,451,508	–	2,866,239	–	2,866,239
Multi Realty Development Corporation	10,108,839	–	–	–	10,108,839	–	10,108,839
Tagaytay Resort Development Corporation	26,705	–	26,705	–	–	–	–
SM Investments Corporation	24,365	–	21,994	–	2,371	–	2,371
	<b>P23,747,999</b>	<b>P–</b>	<b>P6,635,618</b>	<b>P–</b>	<b>P17,112,381</b>	<b>P–</b>	<b>P17,112,381</b>

**Accounts receivable - management fees**

Sanford Marketing Corporation	P28	P150,316	P149,250	P–	P1,094	P–	P1,094
Mainstream Business, Inc.	–	71,215	71,215	–	–	–	–
Market Strategic Firm, Inc.	–	59,813	59,813	–	–	–	–
Major Shopping Management Corporation	–	54,170	54,170	–	–	–	–
Metro Main Star Asia Corp.	–	46,447	46,447	–	–	–	–
Meridien Business Leader, Inc.	–	30,919	30,919	–	–	–	–
Madison Shopping Plaza, Inc.	–	53,195	53,195	–	–	–	–
Multi Stores Corporation	–	36,070	36,070	–	–	–	–

(Forward)

<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>
Mandurriao Star, Inc.	P–	P63,589	P63,589	P–	P–	P–	P–
Metro Manila Shopping Mecca Corp.	–	43,989	43,989	–	–	–	–
Mercantile Stores Group, Inc.	–	66,408	66,408	–	–	–	–
Mindanao Shopping Destination Corp.	–	14,336	14,336	–	–	–	–
Manila Southern Associates, Inc.	–	52,374	52,374	–	–	–	–
SM Mart, Inc.	–	133,412	133,412	–	–	–	–
Supervalue, Inc.	–	220,637	220,428	–	209	–	209
Super Shopping Market, Inc.	–	162,317	162,317	–	–	–	–
SM Commercial Properties, Inc.	13,260	–	13,260	–	–	–	–
	13,288	1,259,207	1,271,192	P–	1,303	P–	1,303

**Dividends receivable**

Multi Realty Development Corporation	P718,182	P–	P–	P–	P718,182	P–	P718,182
Mainstream Business, Inc.	149,998	269,997	149,998	–	269,997	–	269,997
Major Shopping Management Corp.	152,997	188,997	152,997	–	188,997	–	188,997
Madison Shopping Plaza, Inc.	89,999	49,999	89,999	–	49,999	–	49,999
Mandurriao Star, Inc.	49,999	119,999	49,999	–	119,999	–	119,999
Mercantile Stores Group, Inc.	19,799	178,193	19,799	–	178,193	–	178,193
Manila Southern Associates, Inc.	–	60,000	–	–	60,000	–	60,000
Market Strategic Firm, Inc.	99,999	189,999	99,999	–	189,999	–	189,999
Metro Main Star Asia Corp.	49,499	59,399	49,499	–	59,399	–	59,399

(Forward)

<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>
Multi Stores Corporation	P104,997	P164,995	P104,997	P–	P164,995	P–	P164,995
Metro Manila Shopping Mecca Corp.	59,999	99,999	59,999	–	99,999	–	99,999
Mindanao Shopping Destination Corp.	–	14,999	–	–	14,999	–	14,999
Meridien Business Leader, Inc.	9,900	19,800	9,900	–	19,800	–	19,800
Accessories_Management Corp.	13,999	500	13,999	–	500	–	500
CF_Mgt Corp.	12,199	10,999	12,199	–	10,999	–	10,999
LF_Mgt Corp.	13,999	9,999	13,999	–	9,999	–	9,999
Shoemart, Inc. (formerly LTBG_Mgt. Corp.)	15,698	–	15,698	–	–	–	–
MF_Mgt. Corp.	6,499	–	6,499	–	–	–	–
MCLG_Mgmt. Corp..	5,000	1,000	5,000	–	1,000	–	1,000
Hyperhome Corp.	5,000	5,000	5,000	–	5,000	–	5,000
Sanford Marketing Corporation	–	597,582	–	–	597,582	–	597,582
Supervalue, Inc.	1,999,998	2,099,997	1,999,998	–	2,099,997	–	2,099,997
Super Shopping Market, Inc.	1,499,995	799,999	1,499,998	–	799,996	–	799,996
Walmart Supermarket, Inc.	76,500	51,000	76,500	–	51,000	–	51,000
MH Holdings, Inc.	–	89,636	89,636	–	–	–	–
The Net Group	–	90,000	–	–	–	–	90,000
	<b>P5,154,255</b>	<b>P5,172,088</b>	<b>P4,525,712</b>	<b>P–</b>	<b>P5,710,631</b>	<b>P–</b>	<b>P5,800,631</b>

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS – Other Assets**  
**AS AT DECEMBER 31, 2014**  
**(Amounts in Thousands)**

<b>Description</b>	<b>Beginning Balance</b>	<b>Additions at Cost</b>	<b>Charged to Cost and Expenses</b>	<b>Other changes Additions (Deductions)</b>	<b>Charged to Other Accounts</b>	<b>Ending Balance</b>
Goodwill	P14,130,293	P2,048,148	P–	P–	P–	P16,178,441
Trademarks and brand names	6,124,762	–	–	–	–	6,124,762
<b>Total</b>	<b>P20,255,055</b>	<b>P2,048,148</b>	<b>P–</b>	<b>P–</b>	<b>P–</b>	<b>P22,303,203</b>

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**AS AT DECEMBER 31, 2014**  
**(Amounts in Thousands)**

<b>Title of Issue and Type of Obligation</b>	<b>Amount Authorized by Indenture</b>	<b>Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet</b>	<b>Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet</b>
<b>Fixed Rate</b>			
Foreign Currency Loans:			
US\$500 million senior bonds	P–	P–	P22,180,680
US\$400 million exchanged bonds	–	–	17,172,275
US\$350 million senior bonds	–	–	15,478,859
US\$300 million five-year term loans	–	–	7,943,279
US\$250 million convertible bonds	–	–	3,653,228
Peso Loans:			
Three-year, five-year, seven-year and ten-year fixed rate notes	–	2,045,853	45,578,198
Five-year and seven-year retail bonds	–	–	999,160
Seven-year and ten-year retail bonds	–	–	27,130,850
Five-year, seven-year and ten-year retail bonds	–	–	18,148,846
Five-year, seven-year and ten-year corporate notes	–	968,000	760,000
Other bank loans	–	14,978	11,887,965
<b>Variable Rate</b>			
Foreign Currency Loans:			
US\$ five-year term loans	–	–	43,742,455
Two-year, three-year and five-year bilateral loans	–	1,987,739	2,213,522
(Forward)			

<b>Title of Issue and Type of Obligation</b>	<b>Amount Authorized by Indenture</b>	<b>Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet</b>	<b>Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet</b>
Other US\$ loans	P–	P–	P1,104,884
Peso Loans:			
Five-year, seven-year and ten-year corporate notes	–	4,789,343	–
Five-year floating rate loan	–	40,016	10,513,916
Five-year and ten-year corporate notes	–	34,680	4,288,068
Five-year bilateral loans	–	–	499,521
Other bank loans	–	788,499	3,817,849
<b>Total</b>	<b>P–</b>	<b>P10,669,108</b>	<b>P237,113,555</b>

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**AS AT DECEMBER 31, 2014**

Title of Issue	Number of Shares Authorized	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by		
				Affiliates	Directors, Officers and Principal Stockholders	Others
Common Stock	1,190,000,000	796,340,646	6,718,781	50,664,917	381,642,277	364,033,452



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**COMPUTATION OF PUBLIC OWNERSHIP AS AT DECEMBER 31, 2014**

<b>Number of Shares Issued and Outstanding (I/O)</b>	<b>""% to total I/O shares""</b>	<b>Number of Shares</b>	<b>Total</b>
			<b>796,340,646</b>
<b>Directors:</b>			
Henry Sy, Sr. Indirect	0.40%	3,182,550	
Teresita T. Sy Direct	6.99%	55,635,450	
Indirect	0.18%	1,450,000	
Henry Sy, Jr. Direct	7.34%	58,460,450	
Harley T. Sy Direct	6.99%	55,628,292	
Indirect	0.36%	2,900,000	
Jose T. Sio Direct	0.00%	14	
Vicente S. Perez, Jr. Direct	0.00%	14	
Ah Doo Lim Indirect	0.00%	125	
Joseph R. Higdon Indirect	0.00%	125	
<b>Subtotal</b>	<b>22.26%</b>	<b>177,257,020</b>	

(Forward)

	<b>"% to total I/O shares"</b>	<b>Number of Shares</b>	<b>Total</b>
<b>Officers -</b>			
Corazon P. Guidote			
Direct	0.00%	2,125	
<b>Subtotal</b>	<b>0.00%</b>	<b>2,125</b>	
<b>Principal Stockholders:</b>			
Felicidad T. Sy			
Direct	3.20%	25,522,060	
Indirect	0.04%	208,113	
Hans T. Sy			
Direct	8.11%	64,510,450	
Indirect	0.18%	1,459,071	
Herbert T. Sy			
Direct	8.28%	65,960,450	
Elizabeth T. Sy			
Direct	5.68%	45,265,484	
Indirect	0.18%	1,457,504	
<b>Subtotal</b>	<b>25.67%</b>	<b>204,383,132</b>	
<b>Affiliates:</b>			
Multi-Realty Development Corporation			
Direct	0.00%	1,099	
SM Prime Holdings, Inc.			
Indirect	0.01%	97,403	
Belle Corporation			
Direct	0.00%	32,585	

(Forward)

	<b>"% to total I/O shares"</b>	<b>Number of Shares</b>	<b>Total</b>
Syntrix Holdings, Inc. Direct	3.92%	31,250,000	
Sysmart Corporation Direct	2.42%	19,283,830	
<b>Subtotal</b>	<b>6.35%</b>	<b>50,664,917</b>	
<b>Total Shares held by Directors, Officers, Principal Stockholders and Affiliates</b>	<b>54.28%</b>		<b>432,307,194</b>
<b>Total Number of Shares Owned by the Public</b>	<b>45.72%</b>		<b>364,033,452</b>

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

		<u><b>2014</b></u>	<u><b>2013</b></u>
i.	Current ratio		
	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.93 : 1	1.23 : 1
ii.	Debt-to-equity ratio		
	$\frac{\text{Total interest-bearing debt}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt}}$	50 : 50	52 : 48
	Net debt-to-equity ratio		
	$\frac{\text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}$	34 : 66	37 : 63
iii.	Asset to equity ratio		
	$\frac{\text{Total assets}}{\text{Total equity}}$	2.03	2.11
iv.	Interest rate coverage ratio		
	$\frac{\text{Income from operations} + \text{Depreciation and amortization}}{\text{Interest expense}}$	5.43	5.56
v.	Return on assets		
	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Average assets}}$	4.2%	4.6%
	Return on equity		
	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Average equity attributable to equity holders of the parent}}$	12.0%	13.0%

**RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION**

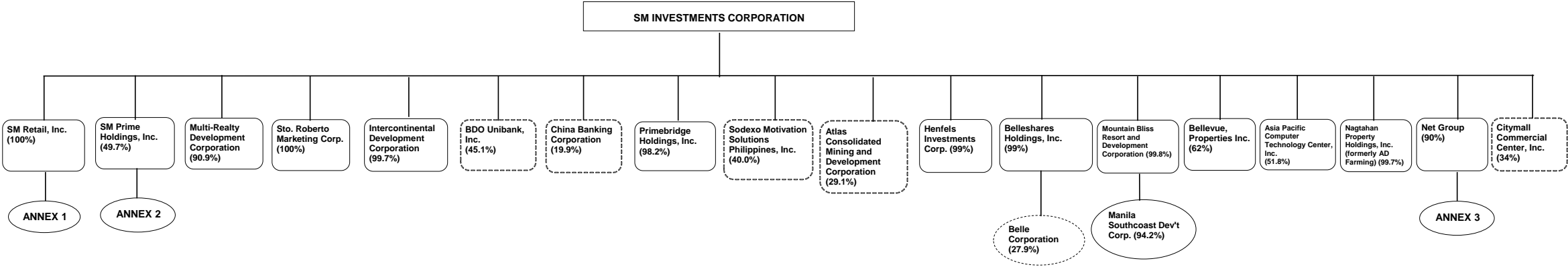
**As at December 31, 2014  
(Amounts in Thousands)**

**SM Investments Corporation**

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

<b>Unappropriated RE, December 31, 2013</b>	<b>₱13,358,104</b>
Adjustments to beginning unappropriated RE:	(254,039)
Rental income from straight-line amortization in excess of rental payments	(311,669)
Actuarial loss as at January 1, 2013 recognized as expense in 2013	48,548
Unrealized foreign exchange gain	9,082
<b>Unappropriated RE, as adjusted to available for dividend distribution, beginning</b>	<b>13,104,065</b>
 Net income during the period closed to Retained Earnings	 ₱9,179,127
Less: Non-actual/unrealized income, net of tax	
Rental income from straight-line amortization in excess of rental payments	54,234
<b>Net income actually earned/realized during the period</b>	<b>9,233,361</b>
 Less Cash Dividends declared during the period	 (8,233,455)
<b>Unappropriated RE, as adjusted to available for dividend distribution, ending</b>	<b>₱14,103,971</b>

SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
Corporate Structure  
As of December 31, 2014

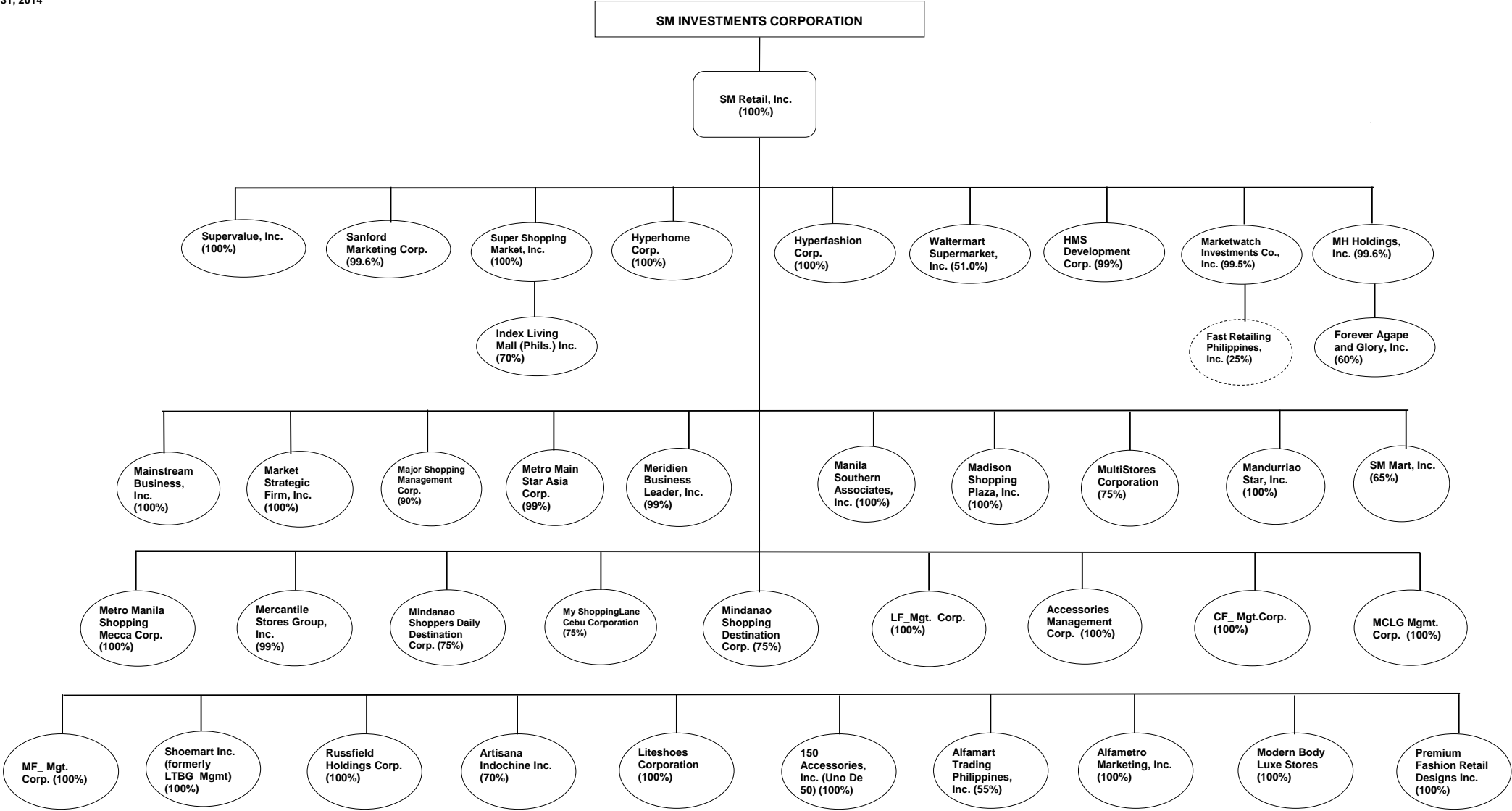


Legend:



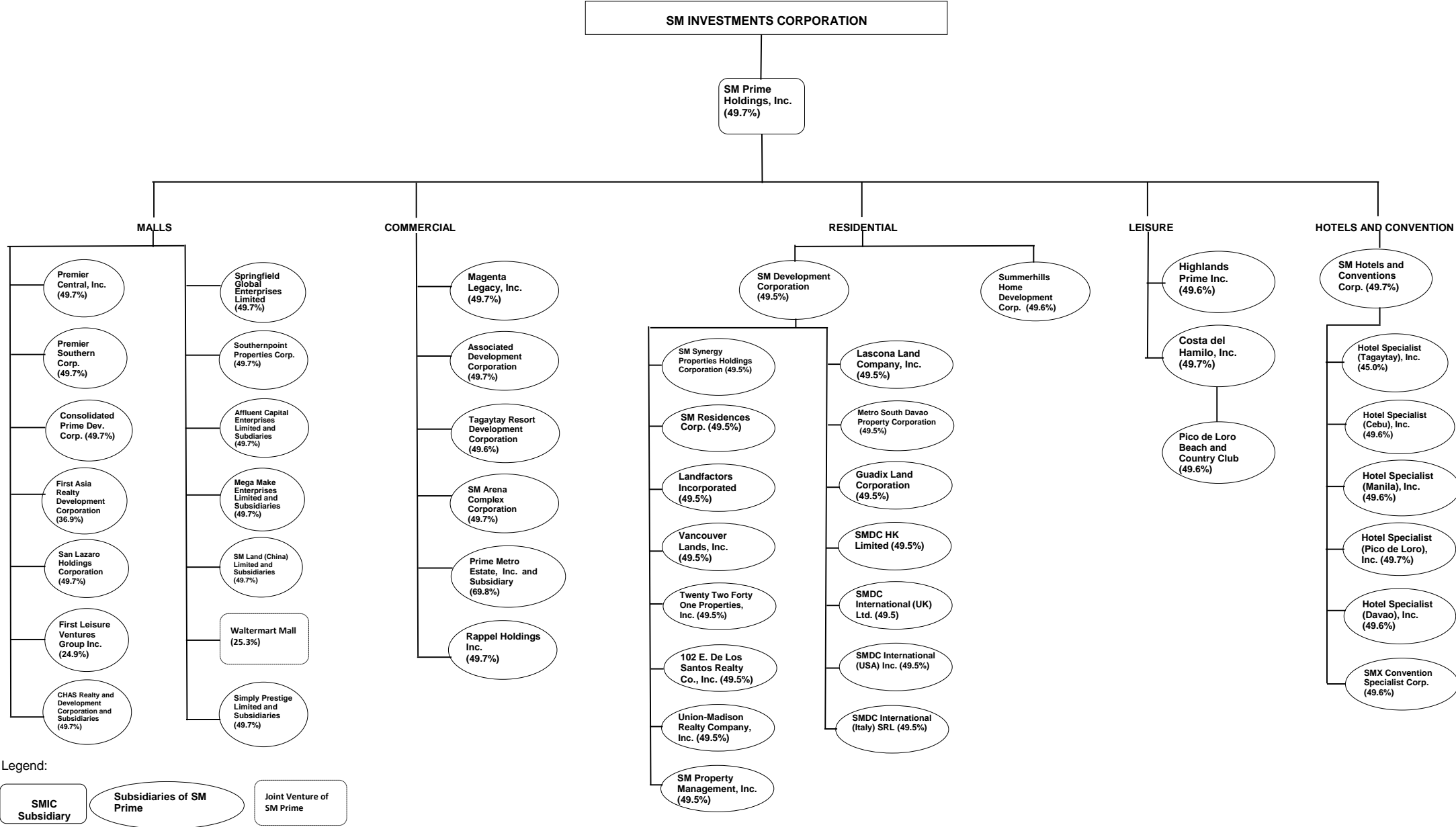
Note: % Refers to Effective Ownership

SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
Corporate Structure  
Annex 1  
As of December 31, 2014



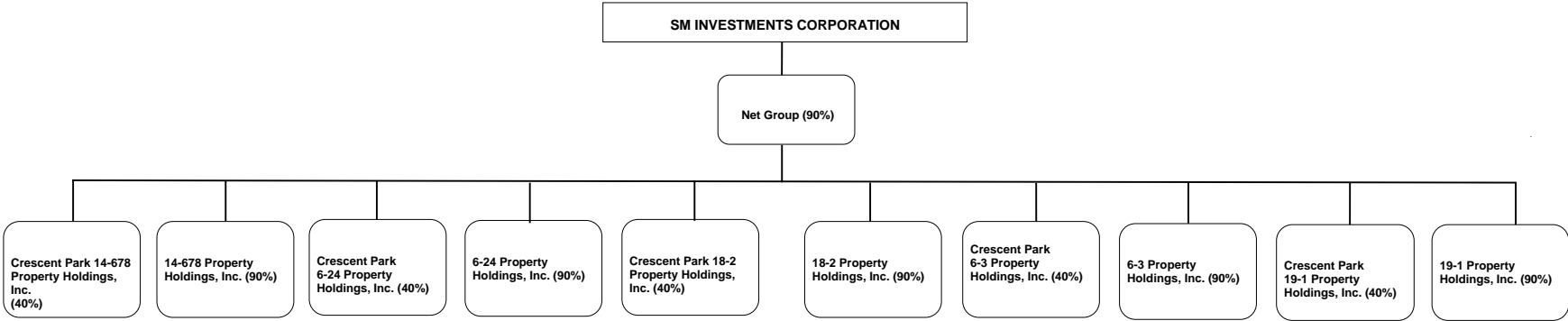
Note: % Refers to Effective Ownership

SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
Corporate Structure  
Annex 2  
As of December 31, 2014



Note: % Refers to Effective Ownership





Legend:



Note: % Refers to Effective Ownership

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**List of Philippine Financial Reporting Standards (PFRSs) and**  
**Interpretations Effective as at December 31, 2014**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2014		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition**	Not Early Adopted		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination**	Not Early Adopted		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements**	Not Early Adopted		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals**	Not Early Adopted		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts**	Not Early Adopted		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements**	Not Early Adopted		
<b>PFRS 8</b>	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets**	Not Early Adopted		
<b>PFRS 9</b>	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
	Amendments to PFRS 9: Hedge accounting and amendments to PFRS 9 and PAS 39 (2013 version)**	Not Early Adopted		
	Amendments to PFRS 9 (2014 version)**	Not Early Adopted		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	Not Early Adopted		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations**	Not Early Adopted		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception**	Not Early Adopted		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2014		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 14</b>	Regulatory Deferral Accounts**	Not Early Adopted		
<b>PFRS 15</b>	Revenue from Contracts with Customers***	Not Early Adopted		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortization**	Not Early Adopted		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**	Not Early Adopted		
	Amendments to PAS 16 and PAS 41: Bearer Plants**	Not Early Adopted		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution**	Not Early Adopted		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate**	Not Early Adopted		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendment: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel**	Not Early Adopted		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements**	Not Early Adopted		
<b>PAS 28</b>	Investments in Associates	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	Not Early Adopted		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures	✓		
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'**	Not Early Adopted		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2014		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization**	Not Early Adopted		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**	Not Early Adopted		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
<b>PAS 40</b>	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property**	Not Early Adopted		
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants**	Not Early Adopted		
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes	✓		
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate*	Not Early Adopted		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies	✓		
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases – Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

\* Standards and interpretations which will become effective subsequent to December 31, 2014

\*\*Standards and amendments already approved by the Financial Reporting Standards Council (FRSC) but still for approval by Board of Accountancy

\*\*\*Standards issued by International Accounting Standards Board but not yet adopted by FRSC.

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2014.

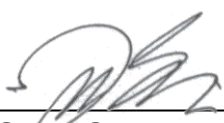
## SIGNATURES

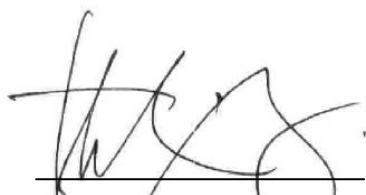
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on MAR 31 2015

By:

### SM INVESTMENTS CORPORATION

  
**HARLEY T. SY**  
 President and Director

  
**JOSE T. SIO**  
 Executive Vice President,  
 Chief Financial Officer and  
 Director


  
**FRANKLIN C. GOMEZ**  
 Senior Vice President - Finance

  
**ELMER B. SERRANO**  
 Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this        day of MAR 31 2015  
 affiants exhibiting to me their Residence Certificates, as follow:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HARLEY T. SY	EB4055697	November 12, 2011	Manila
JOSE T. SIO	EB5104390	April 11, 2012	Manila
FRANKLIN C. GOMEZ	EB5335602	May 9, 2012	PE Jakarta
ELMER B. SERRANO	EB7383852	February 13, 2014	DFA NCR East

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 PAGE No 83  
 BOOK No XVI  
 SERIES OF n/s

  
**ARTHUR A. SY**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2015  
 PTR NO. 4758714 / 01.08.15 / MAKATI CITY  
 IBP LRN 548832 / 01.07.02 / PPLM  
 TIN-174-674-196 ROLL NO. 40024




# **SM Investments Corporation**

## **Annual Corporate Governance Report**

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT**

1. Report is Filed for the Year **2014**
2. Exact Name of Registrant as Specified in its Charter **SM INVESTMENTS CORPORATION**
3. **10<sup>TH</sup> Floor, One E-Com Center, Harbor Drive,** **1300**  
**Mall of Asia Complex, CBP-IA, Pasay City** Postal Code  
Address of Principal Office
4. SEC Identification Number **016342**
5.  (SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number **169-020-000**
7. **(632) 857-0100**  
Issuer's Telephone number, including area code
8. ....  
Former name or former address, if changed from the last report

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## A. BOARD MATTERS

### 1) Board of Directors

Number of Directors per Articles of Incorporation	8
---	---

Actual number of Directors for the year	8
---	---

#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID) <sup>1</sup>	Elected when (Annual /Special Meeting)	No. of years served as director
Henry Sy, Sr.	NED	Atty. Sheila T. Quien	1960*	30 April, 2014	ASM	53
Teresita T. Sy	NED	Atty. Sheila T. Quien	1979*	30 April, 2014	ASM	34
Henry T. Sy, Jr	NED	Atty. Sheila T. Quien	1979*	30 April, 2014	ASM	34
Harley T. Sy	ED	Atty. Sheila T. Quien	1993*	30 April, 2014	ASM	20
Jose T. Sio	ED	Atty. Sheila T. Quien	2005	30 April, 2014	ASM	8
Vicente S. Perez, Jr.	ID	Atty. Sheila T. Quien	2005	30 April, 2014 (8)	ASM	8
Ah Doo Lim	ID	Atty. Sheila T. Quien	2008	30 April, 2014 (5)	ASM	5
Joseph R. Higdon	ID	Atty. Sheila T. Quien	2010	30 April, 2014 (3)	ASM	3

\* The Company was listed in the PSE on 22 March 2005, but the indicated individual has served as a director since the year given.

- (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Company's corporate governance framework and policies are embodied in its Revised Manual on Corporate Governance [February 18, 2010] which sets out the compliance system and plan of compliance. Complementing the framework are a number of related policies which deal with specific implementation areas such as, but not limited to, the following:

- Code of Ethics that stresses integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the rights of shareholders, the protection of company information assets, and promotion of corporate social responsibility. It further provides guidelines on the expected manner by which directors, officers, and employees should perform their duties and responsibilities and while dealing with creditors, customers, contractors, suppliers, regulators, and the public.
- Insider Trading Policy which restricts the disclosure of privileged information and participation in trading activities by directors, officers, and employees within a defined period before and after the disclosure of quarterly and annual financial results and any other material information.
- Guidelines on Acceptance of Gifts which governs solicitation and acceptance of gifts by directors, officers, and employees from any business partner to avoid conflict of interest scenarios.
- Guidelines on Travel Sponsored by Business Partners which explicitly prohibits acceptance of travel sponsorships from any business partner.

<sup>1</sup> Reckoned from the election immediately following January 2, 2012.

- e. **Related Party Transactions** which reiterates the Company's commitment to transparency by practicing full disclosure of the details, nature, extent, and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE.
- f. **Policy on Accountability, Integrity, and Vigilance (PAIV)** which tackles procedures for raising concerns, and issues through filing of an incident report by any director, officer, or employee on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any applicable law or regulation. The policy further states the responsibility of Management for conducting investigations and reporting findings

Further, the Revised Manual of Corporate Governance asserts the rights of the investors/minority interests in respect of the following:

- a. **Voting right**
- b. **Pre-emptive right**
- c. **Power of inspection**
- d. **Right to information**
- e. **Right to dividend; and**
- f. **Appraisal right**

Moreover, the Company's Code of Ethics provides the following to protect the rights of shareholders:

- a. **Adoption of strategies and plans with the end in view of increasing shareholder value.**
- b. **Maintaining complete and accurate books of accounts and records in accordance with applicable laws and standards, and implementing a system of internal controls to ensure that financial reports present fairly the Company's financial position and operating results.**
- c. **Ensuring an independent audit of its financial statements by external auditors.**
- d. **Providing shareholders with complete, accurate, material and timely information regarding their investment and the Company's operations.**

(c) How often does the Board review and approve the vision and mission?

**The Board reviews the Company's vision and mission at least once every three (3) years, or sooner should the need arise.**

(d) Directorship in Other Companies

(i) Directorship in the Company's Group<sup>2</sup>

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Henry Sy, Sr.	SM Prime Holdings, Inc.	Chairman Emeritus
	BDO Unibank, Inc.	Chairman Emeritus
	China Banking Corporation	Honorary Chairman

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

Teresita T. Sy	BDO Unibank, Inc.	Chairperson (NED)
	BDO Leasing and Finance Corp.	Chairperson (NED)
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman (NED)
Harley T. Sy	China Banking Corporation	Director (NED)
Jose T. Sio	China Banking Corporation	Director (NED)
	Belle Corporation	Director (NED)
	Atlas Consolidated Mining and Development Corp.	Director (NED)
Vicente S. Perez, Jr.	DoubleDragon Properties Corp.	Independent Director (ID)

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ah Doo Lim	Sembcorp Marine Ltd.	Director (NED)
	Sateri Holdings Limited	Director (NED)
	Linc Energy Limited	Director (NED)
	GP Industries Ltd.	Director (NED)
	ARA-CWT Trust Management (Cache) Ltd.	Director (NED)
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director (ID)
	Security Bank Corporation	Independent Director (ID)

\*International

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Henry Sy, Sr. (Chairman)	Teresita T. Sy (Vice Chairperson)	Daughter
	Elizabeth T. Sy	Daughter
	Henry T. Sy, Jr. (Vice Chairman)	Son
	Hans T. Sy	Son
	Herbert T. Sy	Son
	Harley T. Sy (President)	Son

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

**No.** A specific limit has not been set on the number of board seats in other companies that can be held concurrently by an individual director or CEO but prescribes only a low indicative limit that will apply to the CEO, other executive directors, and to independent, non-executive directors who serve as full-time executives in other companies. The Company is currently revising its Corporate Governance Manual to set the limit on the number of board seats that an individual director or CEO may hold concurrently with the Company.

	Guidelines	Maximum Number of Directorships in other companies
Executive Director	None.	None.
Non-Executive Director		
CEO		

(c) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Henry Sy, Sr.	11,965,060	1,777,189	2.21
Teresita T. Sy	45,668,360	-	7.33
Henry Sy Jr.	46,768,360	-	7.51
Harley T. Sy	46,822,633	-	7.52
Jose T. Sio	11	-	-
Vicente S. Perez, Jr.	11	-	-
Ah Doo Lim	100	-	-
Joseph R. Higdon	100	-	-
<b>TOTAL</b>	<b>151,224,435</b>	<b>1,777,389</b>	<b>24.57</b>

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes

☒

No

☐

Identify the Chair and CEO:

Chairman of the Board	Henry Sy, Sr.
CEO/President	Harley T. Sy

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman	Chief Executive Officer
--	----------	-------------------------



Role	<ul style="list-style-type: none"> <li>a. To preside at all meetings of stockholders and directors;</li> <li>b. To sign all certificates, contracts, and other instruments on behalf of the Corporation, except as otherwise provided by law;</li> <li>c. To have general supervision and administration of the affairs of the Corporation;</li> <li>d. To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors;</li> <li>e. To carry out the resolutions of the Board of Directors and to represent the corporation at all functions and proceedings;</li> <li>f. To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>a. To ensure that the administrative and operational policies of the Corporation are carried out under the direction and control of the Chairman of the Board and Chief Executive Officer;</li> <li>b. To supervise and direct the day to day business affairs of the Corporation;</li> <li>c. To recommend to the Chairman of the Board and the Board of Directors specific projects for the attainment of corporate objectives and policies;</li> <li>d. To exercise such powers and duties and perform such duties commonly incident to and vested in the President of a Corporation and which the Chairman of the Board and Chief Executive Officer may, from time to time assign to him.</li> <li>e. To sign or cause the signatures of Certificates of Stock.</li> </ul> <p>The President may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.</p>
Accountabilities		
Deliverables	<ul style="list-style-type: none"> <li>a. With the support from all the directors in the Board, we will continue to strive to enhance shareholder value.</li> <li>b. We will continue to strengthen the SM brand and build the business on the back of very positive economic outlook of the country.</li> <li>c. Study and pursue further improvement in corporate governance structures and practices following the guidelines in the ASEAN CG scorecard.</li> </ul>	<ul style="list-style-type: none"> <li>a. Ensure that the goals and objectives of the Group which were agreed upon during the Annual Strategic Planning are met.</li> <li>b. Stress further on our core values of innovation, hard work, efficient cost management, integrity across all business units.</li> <li>c. Update and align our Corporate Governance Manual towards best practice.</li> <li>d. Implementation of matters approved by the Board of</li> </ul>

		Directors and shareholders.
--	--	-----------------------------

- 3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

**Under the Company's Amended By-Laws (Article VI. Officers, Section 9. Executive and Senior Vice Presidents), in the absence or disability of the President, the most senior Executive or Senior Vice President who is also a Director, shall perform all the duties of the President, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Nomination Committee adheres to the principle of "fit and proper" in succession planning. In evaluating candidates, a high level of competency, experience and stature are used as standards. Furthermore, the maturity of character and ability to effectively assimilate into the SM culture are critical. Once evaluated, the recommendation is presented to the Board for discussion and consideration.**

- 4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

**Yes. Under the Company's Corporate Governance Manual (CGM 2.2.2.1.2 Specific Duties and Functions), the Board shall install a process of selection to ensure a mix of competent directors and officers.**

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

**Yes. Under the Company's Corporate Governance Manual (CGM 2.2.2.1.1 Qualifications), in addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.**

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	As provided for in the Company's By-Laws and Manual on Corporate Governance, it is an Executive Director's general role to ensure that aside from his responsibilities as a director, that the day-to-day management of the company is sound and in line with the Company's objectives. He is also expected to serve as the medium between the Board and Management.	As provided for in the Company's By-Laws and Manual on Corporate Governance that a Non-Executive Director, uphold his duties and responsibilities as a member of the Board of Directors.	As provided for in the Company's By-Laws and Manual on Corporate Governance, it is an Independent Director's general role to ensure that aside from his responsibilities as a director, that he provides the Board with engaging discussions through independent thinking, ideas and judgment.
Accountabilities	Under the Company's By-Laws, it is the Board of Directors' general responsibility to: <ul style="list-style-type: none"> <li>• Protect the interests of the Company's various stakeholders;</li> <li>• Ensure the financial success of the business;</li> <li>• Effectively monitor management's performance;</li> <li>• Ensure that the principles of good corporate governance are observed throughout the</li> </ul>		

	<p>organization;</p> <ul style="list-style-type: none"> <li>• Formulate policies for the accomplishment of corporate objectives.</li> </ul> <p>In line with the Company's By-Laws, the Manual on Corporate Governance also provides that a director shall also:</p> <ul style="list-style-type: none"> <li>• Conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;</li> <li>• Devote time and attention necessary to properly discharge his duties and responsibilities;</li> <li>• Act judiciously;</li> <li>• Exercise independent judgment;</li> <li>• Have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies;</li> <li>• Observe confidentiality;</li> <li>• Ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.</li> </ul>		
Deliverables	<ul style="list-style-type: none"> <li>• Further strengthen and streamline the support infrastructure of the organization to be more efficient and responsive to the needs of our growing business.</li> <li>• Promote the corporate governance and compliance culture in the Company.</li> <li>• Institutionalize the risk management and corporate social responsibility programs across the Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Take lead in the review of the performance of Board Committees vis a vis their respective charters, and introduce refinements.</li> <li>• Pursue continuing education programs for directors.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversee the updating of the Corporate Governance Manual.</li> <li>• Meet once a year, without the Executive Directors and Senior Management.</li> <li>• Meet the Auditor and External Auditors.</li> <li>• Pursue continuing education programs for directors.</li> </ul>

Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Company has adopted the definition of independence from Section 38 of the Securities Regulation Code. To ensure that the term "independence" fittingly applies, the Company tailored the SRC definition to define independence as *"independence from Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment"*. The Company adopts this definition as a requisite and one of the qualifications for its independent directors. The Company anchors its definition of "independence" on the commitment to a principles-based and responsible decision-making that respects and promotes the rights of shareholders, especially of the minority shareholders. Furthermore, compliance towards this commitment is assessed through the Annual Board Evaluation Process where **INDEPENDENCE** is a standard performance norm.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

**Yes, the Company has adopted a policy that an independent director may serve the Board for a period of five (5) consecutive years, which should be followed by a “cooling off” period of two (2) years; should the Company wish to bring back the independent director for another four (4) years.**

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
<b>None. There were no changes to the composition of the Board of Directors in 2014.</b>			

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
<b>a. Selection/Appointment</b>		
(i) Executive Directors	<p>Members of the Board of Directors are nominated by the Nomination Committee and elected at the annual meeting of the stockholders to serve for a term of one (1) year until their successors are duly elected and qualified.</p> <p>The Nomination Committee reviews and evaluates all candidates nominated to Officer positions in the Company that, under the Company's By-Laws, require Board approval prior to effectivity of such Officer appointments or promotions.</p>	<p>Per the Company's Manual on Corporate Governance, each director shall possess all of the following qualifications:</p> <ul style="list-style-type: none"> <li>• a holder of at least one (1) share of stock of the Company;</li> <li>• at least be a college graduate or have sufficient experience in managing the business to substitute for such formal education;</li> <li>• at least be twenty one (21) years old;</li> <li>• shall have proven to possess integrity and probity; and</li> <li>• shall be assiduous.</li> </ul>
(ii) Non-Executive Directors		
(iii) Independent Directors		<p>In addition to the qualifications of directors, an individual nominated and elected as an independent director should meet the following requirements:</p> <ul style="list-style-type: none"> <li>• He is not a director or officer of the Company or of its related companies or any of</li> </ul>

		<p>its substantial shareholders except when the same shall be an independent director of any of the foregoing.</p> <ul style="list-style-type: none"> <li>• He does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders.</li> <li>• He is not a relative to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister.</li> <li>• He is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.</li> <li>• He has not been employed in any executive capacity by the Company, any of its related companies, and/or any of its substantial shareholders within the last five (5) years.</li> <li>• He is not retained as professional adviser by the Company, and/or any of its related companies and/or any of its substantial shareholders within the last five (5) years.</li> <li>• He is not retained, either personally or through his firm or any similar entity, as</li> </ul>
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		<p>professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, either personally or through his firm.</p> <ul style="list-style-type: none"><li>• He has not engaged and does not engage in any transaction with the Company and /or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.</li></ul>
b. Re-appointment		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-appointment.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		
(i) Executive Directors	The Nomination Committee shortlists, assesses and evaluates all candidates nominated to become a member of the Board in accordance with the qualification and disqualification criteria set out in the Company's Manual on Corporate Governance and other relevant laws.	The grounds for permanent disqualification are as follows: <ul style="list-style-type: none"><li>a) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment</li></ul>
(ii) Non-Executive Directors		
(iii) Independent Directors		

		<p>house or as an affiliated person of any of them;</p> <p>b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from:</p> <p>(a) acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in the subparagraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.</p> <p>c) The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking, or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-</p>
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		<p>regulatory organization suspending or expelling him from membership, participation or association with a member participant of the organization;</p> <p>d) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>e) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;</p> <p>f) Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;</p> <p>g) Any person judicially declared to be insolvent;</p> <p>h) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in</p>
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		<p>subparagraphs (i) to (v) above;</p> <p>i) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation code committed within five (5) years prior to the date of his election or appointment.</p>
<b>d. Temporary Disqualification</b>		
(i) Executive Directors	<p>The Nomination Committee shortlists, assesses and evaluates all candidates nominated to become a member of the Board in accordance with the qualification and disqualification criteria set out in the Revised Manual on Corporate Governance.</p> <p>A temporary disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>The grounds for temporary disqualification are as follows:</p> <p>a) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.</p> <p>b) Absence in more than fifty (50) percent of all regular and special meeting of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.</p> <p>c) Dismissal or termination for cause as director of any corporation covered by the SEC's Code of Corporate Governance. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d) If the beneficial equity ownership of an independent director in the corporation or its</p>
(ii) Non-Executive Directors		
(iii) Independent Directors		

		<p>subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.</p> <p>e) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p>
e. Removal		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their removal.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-instatement.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors	The Company applies the same process and criteria used in the temporary disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their suspension.	
(ii) Non-Executive Directors		
(iii) Independent Directors		

#### Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Henry Sy, Sr.	100%
Teresita T. Sy	100%
Henry T. Sy, Jr.	100%
Harley T. Sy	100%
Jose T. Sio	100%
Vicente S. Perez, Jr.	100%
Ah Doo Lim	100%
Joseph R. Higdon	100%

#### 6) Orientation and Education Program

##### (a) Disclose details of the company's orientation program for new directors, if any.

Under the Company's Corporate Governance Manual (CGM 2.2.1.2 Specific Duties and Functions) *"each elected director shall, before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or government institute."* Also, the Company's Orientation for New Employees of SM (ONE SM) provides new directors, officers and employees with a video orientation on the history, growth, direction, business units and core values of SM's Founder, Mr. Henry Sy, Sr. Furthermore, the Company complies with SEC MC. No. 20 (2013) – requiring all members of the board of directors and key officers to

**attend corporate governance trainings only with SEC accredited training providers annually.**

- (b) State any in-house training and external courses attended by Directors and Senior Management<sup>3</sup> for the past three (3) years:

**In the past three (3) years, the Company has provided its Directors and Senior Management with orientations on the following:**

- **Corporate Governance/Financial Audit Training conducted by the ICD)**
- **Risk Management (conducted by KPMG)**
- **Impact of New Tax Legislation (regularly conducted by SGV)**
- **ASEAN Corporate Governance Scorecard (conducted by the Company's Corporate Governance Department)**
- **Basic Corporate Governance for Officers, Executives and Middle Management (conducted by the Company's Corporate Governance Department)**
- **Basic Corporate Governance for New Employees (conducted by the Company's Corporate Governance Department)**

- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

<b>Name of Director/Officer</b>	<b>Date of Training</b>	<b>Program</b>	<b>Name of Training Institution</b>
<b>Teresita Sy-Coson</b>	<b>August 6, 2014</b>	<b>Exclusive Orientation Course on Corporate Governance (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	<b>May 28, 2014</b>	<b>Exclusive Orientation Course on Corporate Governance (BDO)</b>	<b>Institute of Corporate Directors (ICD)</b>
<b>Henry T. Sy, Jr.</b>	<b>August 6, 2014</b>	<b>Exclusive Orientation Course on Corporate Governance (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
<b>Harley T. Sy</b>	<b>January 8, 2014</b>	<b>Exclusive Corporate Governance Workshop (CBC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	<b>August 6, 2014</b>	<b>Anti-Money Laundering Act (AMLA) Seminar</b>	<b>Bangko Sentral Pilipinas (BSP)</b>
<b>Jose T. Sio</b>	<b>January 8, 2014</b>	<b>Exclusive Corporate Governance Workshop (CBC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	<b>February 24, 2014</b>	<b>Exclusive Corporate Governance Workshop (SMPHI)</b>	<b>Institute of Corporate Directors (ICD)</b>
	<b>August 6, 2014</b>	<b>Anti-Money Laundering Act (AMLA) Seminar</b>	<b>Bangko Sentral Pilipinas (BSP)</b>
<b>Vicente S. Perez, Jr.</b>	<b>November 20, 2014</b>	<b>Distinguished Corporate Governance Speaker Series</b>	<b>Institute of Corporate Directors (ICD)</b>
<b>Ah Doo Lim</b>	<b>August 6, 2014</b>	<b>Exclusive Orientation Course on Corporate Governance (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
<b>Joseph R. Higdon</b>	<b>April 29, 2014</b>	<b>Corporate Governance</b>	<b>Risks, Opportunities,</b>

<sup>3</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

		Seminar (SBC)	Assessment and Management (ROAM)
Atty. Emmanuel C. Paras	February 24, 2014	Exclusive Corporate Governance Workshop (SMPHI)	Institute of Corporate Directors (ICD)
Atty. Corazon I. Morando	January 8, 2014	Exclusive Corporate Governance Workshop (CBC)	Institute of Corporate Directors (ICD)
Atty. Serafin U. Salvador	August 6, 2014	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Cecilia R. Patricio	August 6, 2014	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Grace F. Roque	August 6, 2014	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Atty. Marianne M. Guerrero	August 6, 2014	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Franklin C. Gomez	August 6, 2014	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Corazon P. Guidote	August 19, 2014	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors (ICD)

## B. CODE OF BUSINESS CONDUCT & ETHICS

- 1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>Under the Company Conflict of Interest Policy, any director, officer or employee involved in an actual or potential conflict of interest is required to:</p> <ul style="list-style-type: none"> <li>• immediately disclose to the Board of Directors (for directors) or to his immediate supervisor (for officers and employees) all material information regarding the conflict;</li> <li>• inhibit himself/herself from any direct or indirect participation or involvement at any stage of the transaction;</li> <li>• refrain from seeking to influence any official action by the company regarding the transaction; and</li> <li>• comply with other requirements as may be imposed by the company in relation to the conflict of interest.</li> </ul>		
(b) Conduct of Business and Fair Dealings	<p>All directors, officers and employees are required to act with utmost integrity and prohibited from engaging in any unfair dealing practices. The Company prohibits any conflict of interest, unfair competition, breach of trust, insider trading, or any other act inimical to the Company's interest.</p>		
(c) Receipt of gifts from third parties	<p>The Company prohibits the solicitation or acceptance of gifts in any form from any business partner. However, a director, officer or employee may accept corporate give-aways, tokens or promotional items, provided that the gift is voluntarily given and is of nominal value.</p>		
(d) Compliance with Laws & Regulations	<p>The Company aims to conduct business in accordance with the highest standards of business ethics. To this end, all business dealings are required to be compliant</p>		

	with all applicable laws and regulations and must not in any way compromise the good name and reputation of the Company.
(e) Respect for Trade Secrets/Use of Non-public Information	Under the Company's Code of Ethics, directors, officers and employees are prohibited from disclosing vital business information, unless authorized by the Company or required by law.
(f) Use of Company Funds, Assets and Information	
(g) Employment & Labor Laws & Policies	Under the Company's Code of Ethics, all employees are selected, engaged and compensated based on qualification, merit and performance and are treated fairly and accorded respect and dignity. The Company adheres to all labor laws and policies and fosters its employee welfare program.
(h) Disciplinary action	Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources and Corporate Governance departments are responsible for monitoring compliance with the Code of Ethics. Disciplinary actions against violators include dismissal and/or filing of appropriate civil and criminal actions.
(i) Whistle Blower	The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any of the Company's directors, officers or employees may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee.
(j) Conflict Resolution	

- 2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

A formal cascade, covering broad to detailed aspects of the code of ethics, was sponsored and conducted by the Corporate Governance Department for directors, officers, and employees. On continuing basis, the code of ethics is cascaded through the Human Resources Department's enhanced Corporate Orientation Program for New Employees. The program, referred to as ONE SM (Orientation for New Employees of SM), gives employees an overview of the Company's corporate governance framework, policies, and its various components. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics.

- 3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources and Corporate Governance departments are responsible for monitoring compliance with the Code of Ethics. Disciplinary actions against violators include dismissal and/or filing of appropriate civil and criminal actions.

- 4) Related Party Transactions

- (a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and

dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	The terms and conditions on related party transactions are maintained at arms-length and are properly documented. Such transactions are extended at terms no less than favourable than could have been obtained if the transactions were with unrelated parties.
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	All related party transactions are reviewed by senior management and are properly disclosed in the financial statements.
(7) Directors including spouse/children/siblings/parents	
(8) Interlocking director relationship of Board of Directors	Ownership of SMIC in various subsidiaries and affiliates are properly disclosed in the parent and consolidated financial statements.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	Aside from the family relations among and between certain directors, officers and significant shareholders (detailed in item 5) Family, Commercial and Contractual Relations); the Company is not aware of any actual or probable conflict of interest.
Name of Officer/s	
Name of Significant Shareholders	

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	<ul style="list-style-type: none"> <li>Voluntary disclosure of relationship</li> <li>Required disclosure during hiring</li> <li>Inhibiting oneself in the processing, approval of the transaction</li> <li>Adherence to the principle of “arms-length” and “market-based” treatment and pricing of the transaction</li> <li>Enforcement of the whistle blower policy, Code of Conduct and Code of Ethics</li> </ul>
Group	

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>4</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
a) Teresita T. Sy	Family	(a) through (f) are siblings.
b) Elizabeth T. Sy	Family	
c) Henry T. Sy, Jr.	Family	
d) Hans T. Sy	Family	
e) Herbert T. Sy	Family	
f) Harley T. Sy	Family	

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
None.		

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None.		

#### 6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

Alternative Dispute Resolution System	
Corporation & Stockholders	<p>A neutral third party participates to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative dispute resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the circumstances sees fit.</p> <p>Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties, and the policy that the</p>
Corporation & Third Parties	

<sup>4</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

Corporation & Regulatory Authorities	<p>decision-making authority in the process rests with the parties.</p> <p>There were no conflicts between the corporation and its stockholders, the corporation and third parties, and the corporation and regulatory authorities, for the last three years.</p>
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## C. BOARD MEETINGS & ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

**Yes. It is the Company's practice that regular board meetings be scheduled before the beginning of the year.**

- 2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Henry Sy, Sr.	30 April, 2014	7	7	100
Vice – Chairperson	Teresita T. Sy	30 April, 2014	7	7	100
Vice – Chairman	Henry T. Sy, Jr.	30 April, 2014	7	7	100
President	Harley T. Sy	30 April, 2014	7	7	100
Executive Director	Jose T. Sio	30 April, 2014	7	7	100
Independent Director	Vicente S. Perez, Jr.	30 April, 2014	7	6	86
Independent Director	Ah Doo Lim	30 April, 2014	7	7	100
Independent Director	Joseph R. Higdon	30 April, 2014	7	7	100

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

**Yes. Non-executive directors meet at least once annually, without the presence of executive directors.**

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

**The Company's By-Laws state that a majority of the number of directors specified in the Articles of Incorporation shall constitute a quorum for the transaction of business at any meeting, and the act of majority of directors present at any meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers. In practice, the quorum requirement is more than two-third vote.**

- 5) Access to Information

- (a) How many days in advance are board papers<sup>5</sup> for board of directors meetings provided to the board?

**Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board meetings.**

- (b) Do board members have independent access to Management and the Corporate Secretary?

<sup>5</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.



**Yes. Under the Company's Manual on Corporate Governance (CGM 2.2.1.4), to enable the Board to properly fulfill their duties and responsibilities, management should provide directors with complete and timely information about the matter in the agenda of the meetings. *Directors should be given independent access to management and the Corporate Secretary, as well as to independent professional advice.***

- (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

**Under the Company's Manual on Corporate Governance (CGM 2.3.3 The Corporate Secretary), the Corporate Secretary is an officer of the Company whose duties and responsibilities are as follows:**

- **Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.**
- **As to agenda, get a complete schedule thereof at least for the current year and put the Board on notice before every meeting.**
- **Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.**
- **Attend all Board meetings and maintain record of the same.**
- **Submit to the Commission, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.**

- (d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

**Yes. The Company's Corporate Secretary is a legal professional, in the person of Atty. Elmer B. Serrano. Under the Company's Manual on Corporate Governance, the Corporate Secretary must possess administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have some financial and accounting skills and knowledge of the working operations of the Company.**

- (e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒

No ☐

Committee	Details of the procedures
Executive	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Audit	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Audit and Risk Management Committee members may refer to the Company's Internal Auditor, External Auditor, Corporate Secretary or any other business unit for information pertaining

	to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Internal Auditor.
Nomination	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Remuneration	
Others (specify)	None. Not applicable.

#### 6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
During the conduct of the Annual Board Evaluation, directors are asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and <i>Board Advisors</i> . The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body. Requests for Board advisors are studied. The Board currently employs an Audit and Risk Management Committee advisor who specializes in Taxes in the person of Atty. Serafin U. Salvador and a Board Advisor on Investments in the person of Mr. Stephen T. Cu Unjieng.	

#### 7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
None.		

### D. REMUNERATION MATTERS

#### 1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

**The Compensation and Remuneration Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.**

#### 2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The Compensation and Remuneration Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.	Executive compensation is composed of salaries, bonuses and, plus fixed per diem for every board meeting attended.	Benchmarks such as industry peer group, compensation studies, and level of responsibilities are used as basis.
Non-Executive Directors		Fixed per diem for every board meeting attended and allowances commensurate to the responsibilities given.	

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
Yes. Stockholders ratify all acts made by the Board and Management during the ASM.	30 April 2014
	25 April 2013
	26 April 2012

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

<b>The total remuneration and bonus paid to executive, non-executive and independent directors in 2014 amounted to P165 million. There are no stock options and/or other financial instruments given to directors. There are no advances, credit and car plan granted to directors. There are no life insurance and hospitalization plan for the independent directors. The directors (except independent directors) are covered with the company's retirement plan.</b>
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### 1) Stock Rights, Options and Warrants

#### (a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
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<b>None.</b>
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(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
<b>None.</b>		

2) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

**The aggregate compensation, inclusive of salary, bonuses, and other annual compensation, paid or incurred in 2014 to the five (5) highest compensated executive officers amounted to P84 million.**

**E. BOARD COMMITTEES**

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director or (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	2	1	-	Yes.	<p>The Executive Committee is comprised of non-executive and executive directors and acts on behalf of the Board during the interim times between board meetings. The Committee:</p> <ul style="list-style-type: none"><li>Assists the Board in overseeing the implementation of strategies;</li><li>Reviews the major issues facing the organization;</li><li>Undertakes drawing up and closing the Group’s budgets;</li><li>Monitors the operating activities of each business group;</li><li>Defines and monitors the Group’s performance improvement goals;</li></ul>		

					<ul style="list-style-type: none"> <li>• Defines Group-wide policies and actions (sustainable development, including environment, health &amp; safety, internal communications, internal control and risk management, innovation and research &amp; technology, purchasing) and oversees their rollout;</li> <li>• Fosters the sharing and dissemination of best practices in all areas between the business groups;</li> </ul>
<b>Audit</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>Yes.</b>	The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.
<b>Nomination</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>Yes.</b>	The Nomination Committee is chiefly responsible for the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. The Committee ensures that those nominated to the Board meet the requirements set forth by the Manual on Corporate Governance, such as but not limited to the mandatory attendance of accredited training or orientation programs on corporate governance. Furthermore, the Committee facilitates the annual performance evaluation of the Company's Board as a whole, its respective Board Committees, the individual directors and the President.
<b>Remuneration</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>Yes.</b>	The Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.
<b>Others (specify)</b>	<b>None. Not applicable.</b>				

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Member (NED)	Teresita T. Sy	30 April 2014	32	32	100	-
Member (ED)	Harley T. Sy	30 April 2014	32	27	84.4	-
Member (ED)	Jose T. Sio	30 April 2014	32	25	78.1	-

(b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Vicente S. Perez, Jr.	30 April 2014	4	4	100	8yrs.
Member (ED)	Jose T. Sio	30 April 2014	4	4	100	8yrs.
Member (ID)	Ah Doo Lim	30 April 2014	4	4	100	1yrs.

Disclose the profile or qualifications of the Audit Committee members.

**Vicente S. Perez, Jr.**, is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy and, Chairman of Merritt Partners. He was the youngest and longest serving Secretary of the Department of Energy. In 2001, he briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez also currently serves as an independent director of Double Dragon Properties Corp. and ST Telemedia. Mr. Perez is a member of the advisory boards of Coca-Cola FEMSA Phils., Pictet Clean Energy Fund, Roxas Holdings, and the Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

**Jose T. Sio**, is the Executive Vice President and Chief Finance Officer of SMIC. He is presently a Director of the Board of the following companies listed with the Philippine Stock Exchange (PSE): (i) China Banking Corporation, (ii) Atlas Consolidated Mining and Development Corporation, and (iii) Belle Corporation. Mr. Sio is also an Adviser to the Board of BDO Unibank, Inc. and Premium Leisure Corporation. He also serves as Director of the following companies not listed in the PSE: (i) SM Keppel Land, Inc. (ii) Asia Pacific College, (iii) OCLP (Ortigas) Holdings, Inc., (iv) Carmen Copper Corporation, (v) First Asia Realty Development Corporation, and (vi) Manila North Tollways Corporation. Mr. Sio was a Senior Partner of SyCip Gorres Velayo & Co. (SGV) from 1977 to 1990. He was voted as CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by Hong Kong-based publications such as *Alpha Southeast Asia*, *Corporate Governance Asia*, *Finance Asia* and *The Asset*. Mr. Sio is a Certified Public Accountant and holds a Master's degree in Business Administration from New York University, USA.

**Ah Doo Lim**, a Singaporean, is an Independent Director of SMIC. He is currently a Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., Linc Energy Limited, and U Mobile Sdn Bhd. He is also a Director of Sateri Holdings Limited, a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

**Atty. Serafin U. Salvador (Advisor)** graduated with a Bachelor of Laws degree from the University of the Philippines in 1968. He also attended the Graduate Tax Program at the Graduate School of Law of the New York

University. Atty. Salvador completed his Masters in Business Administration at the Ateneo de Manila University. He likewise attended the TOP Management Program at the Asian Institute of Management and the Managing Multinational Enterprises Program at the INSEAD, Fontainebleau, France. Atty. Salvador was the previous Head of the Tax Division and a Tax Principal of Sycip Gorres Velayo & Co. where he stayed for 30 years. He is also a professor of Taxation in the colleges of Law of the University of the Philippines and the Ateneo de Manila University.

Describe the Audit Committee's responsibility relative to the external auditor.

**In relation to the Company's external auditor, the Audit and Risk Management Committee is tasked to perform the following:**

- Review the external auditors' proposed audit scope and approach.
- Review and confirm the independence of the external auditor by obtaining certification from the latter relative to overall relationship with the Company, including non-audit services.
- Resolve any disagreement between Management and the external auditors regarding financial reporting.
- On a regular basis, meet separately with the external auditor.
- Review the scope of the external auditors' review of internal controls over financial reporting, and obtain regular reports on significant findings and recommendations, together with Management's responses.
- Review with Management and the external auditors, the results of the audit, including any difficulties encountered.

(c) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Joseph R. Higdon	30 April 2014	1	1	100	1yr.
Member (ID)	Vicente S. Perez, Jr.	30 April 2014	1	1	100	1yr.
Member	Teresita T. Sy	30 April 2014	1	1	100	1yr.

(d) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Teresita T. Sy	30 April 2014	1	1	100	8yrs.
Member (ED)	Jose T. Sio	30 April 2014	1	1	100	8yrs.
Member (ID)	Vicente S. Perez, Jr.	30 April 2014	1	1	100	8yrs.

(e) Others (Specify)

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
None.						

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	None.	
Audit	(-) Atty. Corazon I. Morando (-) Henry T. Sy, Jr. (-) Joseph R. Higdon (+) Ah Doo Lim	Per Board decision.
Nomination	(-) Henry T. Sy, Jr. (-) Ah Doo Lim (-) Atty. Corazon I. Morando (+) Joseph R. Higdon (+) Vicente S. Perez, Jr. (+) Teresita T. Sy	Per Board decision.
Remuneration	None.	
Others (specify)	None. Not applicable.	

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	The Executive Committee oversees the management of the Company and is responsible for the Company's finances, goals, and policies. There were no issues to address.	
Audit	<p>The Committee met four times in 2014, and reviewed and discussed the following:</p> <ul style="list-style-type: none"> <li>• The consolidated audited financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2011, first quarter ended March 31, 2012, six month period ended June 30, 2012, and third quarter ended September 30, 2013.</li> <li>• SGV &amp; Co.'s audit plan, including its scope of work, preliminary audit strategy, and audit time table.</li> <li>• SGV &amp; Co.'s significant accounting and audit issues, changes in accounting policies applicable to the SM Group, and tax updates.</li> <li>• The Internal Audit's audit plan and results of its internal audit work.</li> <li>• The details of the Company's related party transactions.</li> <li>• The results of initial risk assessments of priority risk areas and effectiveness of the Company's overall risk management system.</li> <li>• The Company's compliance with laws, rules and regulations.</li> <li>• The performance and independence of the external auditor and concluded that except for the regular audit of financial statements and assistance in the preparation of the annual income tax returns, SGV &amp; Co. did not render any other professional services in 2013.</li> </ul>	
Nomination	The Nomination Committee is chiefly responsible for the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those	



	nominated to positions that require Board approval under the Company's By-Laws. The Committee ensures that those nominated to the Board meet the requirements set forth by the Manual on Corporate Governance, such as but not limited to the mandatory attendance of accredited training or orientation programs on corporate governance. Furthermore, the Committee facilitates the annual performance evaluation of the Board as a whole, its respective Board Committees, the individual directors and the President.
Remuneration	The Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.
Others (specify)	None.

#### 5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	<ul style="list-style-type: none"> <li>Assist the Board in overseeing the implementation of strategies;</li> <li>Review the major issues facing the organization;</li> <li>Undertake drawing up and closing the Group's budgets;</li> <li>Monitor the operating activities of each business group;</li> <li>Define and monitor the Group's performance improvement goals;</li> <li>Define Group-wide policies and actions (sustainable development, including environment, health &amp; safety, internal communications, internal control and risk management, innovation and research &amp; technology, purchasing) and oversee their rollout;</li> <li>Foster the sharing and dissemination of best practices in all areas between the business groups.</li> </ul>	
Audit	<p>Implement the action plans made based on the results of the self-assessment conducted following the guideline set forth by SEC Memorandum Circular No. 4, such as:</p> <ul style="list-style-type: none"> <li>Develop a succession plan for its members and Chair</li> <li>Reporting to the Board and issuance of certifications on critical compliance issues</li> <li>Review and approval of management representation letter before submission to external auditor</li> <li>Obtaining management's assurance on the state of internal controls</li> <li>Promotion of risk awareness in the organization</li> <li>Evaluation of compliance with the Code of Conduct for management</li> <li>Review and approval of fees of external auditor</li> </ul> <p>Institutionalize the risk management assessment process to ensure standardization, effectiveness and efficiency, and continuously monitor key risk areas and performance indicators with due diligence to enable the Company to anticipate and prepare for possible threats to its operational and financial viability.</p>	

	<p>Review the Company's continual process of good corporate governance, as well as providing approaches and advices for development, and tasking management to look into the evolving ASEAN Corporate Governance initiative from the regulators and advocacy groups to see what other enhancements can be properly pursued.</p> <p>Oversee the effectiveness of the Company's whistleblower policy, so that the whistleblower has the confidence that the Company has the required and appropriate independent procedure to effectively investigate and resolve such possible wrong-doings and non-compliance issues</p>
Nomination	<ul style="list-style-type: none"> <li>Enhance the process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, and appoint competent, professional, honest and highly-motivated management officers</li> <li>Formulate succession plans for top key management positions and review such plan on a regular basis</li> <li>Identify areas for improvement of the members of the Board, such as training/continuing education programs or any other form of assistance that directors may need in the performance of their duties</li> </ul>
Remuneration	<ul style="list-style-type: none"> <li>Periodically review the compensation method for directors, officers and employees so that they are equitable and appropriately corresponds to the respective assigned duties and responsibilities, current business environment and performance results of the Company</li> <li>Define goals and evaluate the performance of top management to set reasonable compensation</li> </ul>
Others (specify)	None. Not applicable.

## F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

<p>(i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>(ii) To protect and preserve:</p> <ul style="list-style-type: none"> <li>our employees' and clients' safety and welfare</li> <li>the value and condition of properties and assets</li> <li>our local and global reputation</li> </ul> <p>(iii) To align risk appetite and strategy.</p>
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(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

### Under the Audit and Risk Management Committee Charter:

#### 5.6. Risk Management

##### 5.6.1. Review the adequacy and effectiveness of the Company's policies and procedures relating to the

identification, analysis, management, monitoring and reporting of financial and non-financial risks.

- 5.6.2. Ensure that Management sufficiently and swiftly manages risks, (i.e. reduction and mitigation across operating units) especially those categorized as having high impact with high probability of occurring.
- 5.6.3. Advise the Board, in consultation with Management, on the overall risk management program of the Company as it relates to its risk appetite and strategic direction.
- 5.6.4. May engage a consultant for a more independent assessment of the risk management infrastructure and review different units' best practice.
- 5.6.5. Meet separately with the Chief Risk Officer to discuss any matters that the Committee or auditors believe should be discussed privately.
- 5.6.6. Review the details of the Company's related party transactions.

(c) Period covered by the review;

**The period covered is the year 2014.**

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

**The Audit and Risk Management Committee (ARMC) Quarterly Agenda includes an item on Risk Management. The results of the risk assessment and mitigation exercises are reported to the ARMC. Priority areas which have been identified are hazard risks (disaster preparedness), IT risks, financial risks, operations risks.**

(e) Where no review was conducted during the year, an explanation why not.

**None.**

## 2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Market Risk	The Board and management must constantly scan the business climate and environment and anticipate risks of competition, economic or political instability, and change in consumer behavior that may arise and affect the Company's direction and profitability.	<p>The sustained growth occasioned by economic fundamentals, strong consumer spending, and investment outlook for the country provides an upside risk where opportunities for expansion and higher profitability are available.</p> <p>Economic briefings from experts are held regularly and board advisers and consultants are engaged for possible new ventures or investment</p>

		optimization options.
Reputational Risk	The vision statement states that SM envisions itself to be a Filipino brand that is world-class, a market leader and innovator to provide best-value products and services to millions of its customers.	In view of the scale and visibility of SM in practically all the major cities in the country, clear, accurate and coordinated communication program is key to help educate the public. The Investor Relations Department oversees this function of coordinating the external communication platform of SM.
Hazard Risk	As an asset-based company, we ensure the protection and preservation of the value and condition of our properties and assets.	<p>To be able to eliminate, lessen or transfer risks attributed to natural or man-made disasters causing business disruptions or at worse, loss of lives or property.</p> <p>To ensure that the workforce and the assets are adequately covered by sufficient insurance and health maintenance programs and by all-risk policies respectively, for any eventuality.</p> <p>To put in place a reliable and tested disaster preparedness plan and business continuity plan that aim not only to mitigate risk but to revive operations at a reasonable and agreed recovery time under different business disruption scenarios.</p>
Financial Risk	To manage risks arising from the Group's financial instruments such as interest rate risk, foreign currency risk, liquidity risk, credit risk, material misreporting and equity price risk.	<p>The Board reviews and agrees policies for managing each of the financial risks.</p> <p>The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep a 50:50 debt equity ratio.</p> <p>The Group likewise enters into interest rate swaps. These swaps economically hedge the underlying debt obligations.</p> <p>Interest of fixed rate debts, if later found priced above going market rates, are refinanced for lower cost and longer term.</p> <p>Foreign currency risk exposure and cash flow stability risks are covered by entering into foreign currency swap contracts, foreign currency call options, non-deliverables and foreign currency range options.</p>

		<p>Liquidity Risks that may arise from fund-raising to meet financial commitments are mitigated by using internally generated funds and proceeds from debt and equity issues and sale of certain assets. The Group regularly reviews projected and actual cash flow information and assesses conditions of financial markets.</p> <p>Credit Risk is mitigated by the Group's policy to trade only with recognized, creditworthy related and third parties. Customers who wish to trade on credit are subject to credit verification procedures. Further, receivable balances are monitored regularly.</p> <p>Equity price risk is mitigated by closely monitoring the equity securities in its investment portfolio 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.</p>
IT Risks	Adopted Key Principles Of Confidentiality, Integrity & Availability Of All Information Assets & Systems	<p>ARMC Approved Policies covering Controls, Policies, Standards, Processes, Guidelines, Organizational Structures &amp; Hardware-Software Security Solutions</p> <p>Importance of Awareness, Training &amp; Ownership Of Information Security Policy By All Employees</p> <p>Implement Quality Management Using Global Standards i.e. ISO ISMS 27001</p>

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p>The following mother risk management policy applies to all the subsidiaries of the Group:</p> <p>(i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>(ii) To protect and preserve:</p> <ul style="list-style-type: none"> <li>our employees' and clients' safety and welfare</li> <li>the value and condition of properties and assets</li> <li>our local and global reputation</li> </ul>		

(iii) To align risk appetite and strategy.

The Enterprise Risk Management Committee (ERM) has been set up to execute the risk mitigation strategies and programs that have been approved at the Audit and Risk Management Committee of the Board. The ERM has been established in each of the subsidiaries including the holding company. The Risk Management Department at the holding company coordinates the launch and roll-out program of the ERM and in standardizing the program across companies.

Please note that the Group basically follow the risk prioritization listed in the given table.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
<p>Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines:</p> <ul style="list-style-type: none"> <li>• Majority shareholders may dominate major Company decisions</li> <li>• Lack of transparency on the actions and decisions of majority shareholders</li> <li>• Abusive and inequitable conduct on the part of majority shareholders</li> <li>• Rights of minority shareholders may not be upheld and protected</li> </ul> <p>The Company adopts certain measures that ensure that the aforementioned risks are mitigated, such as cumulative voting.</p>

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Hazard Risks	Low Risk	<ul style="list-style-type: none"> <li>• Periodic review of sufficiency of insurance coverage for our work force and property assets.</li> <li>• Review of financial strength, service quality and risk-retention policy of insurance providers in collaboration with BDO Insurance.</li> <li>• Periodic drills conducted for fire and earthquake led by Admin Dept. in collaboration with building property management group, fire department.</li> <li>• Creation of Disaster Preparedness Committee. Finalize Disaster Preparedness Plan and Business Continuity Plans.</li> <li>• Continuing Tie up with Lifeline Ambulatory Services.</li> </ul>

		<ul style="list-style-type: none"> <li>• Strict compliance to building codes and global standards, engagement of established consultants to assess and confirm structural soundness of our buildings.</li> <li>• Regular updating of Risk Logs indicating the identification, assessment and mitigation of risks.</li> </ul>
<b>IT Risks</b> Data Center capacity and support capability  Mission critical applications disruptions  Internet connection risks  Hacking risks	Low Risk	<ul style="list-style-type: none"> <li>• Implemented Data Center Expansion Project</li> <li>• Implemented SAP Fail-over set up</li> <li>• Implemented Enterprise Network Project</li> <li>• Implemented Enterprise Security Project, engaged penetration and vulnerability assessment by 3<sup>rd</sup> party</li> </ul>
Financial Risks	Low Risk	Strict implementation of: <ul style="list-style-type: none"> <li>• Gearing policies</li> <li>• Fixed and variable interest rate guidelines</li> <li>• Credit policies</li> <li>• Hedging policies</li> <li>• Cash-flow review policies</li> </ul>
Compliance and Legal Risks	Low Risk	<ul style="list-style-type: none"> <li>• Close coordination between Compliance Officer, Legal Department, Corporate Governance and Internal Audit Department on regular and new compliance matters.</li> <li>• SGV likewise provides regular follow ups on pending compliance matters.</li> </ul>

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
The holding company provides down-line policy support and coordination to the subsidiaries and affiliates with regard to Corporate Governance, Risk Management, Finance, Internal Audit, Investor Relations, Human Resources, Compliance, Legal matters.		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
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<b>Audit and Risk Management Committee</b>	<p>The following functionally reports to the ARMC:</p> <ul style="list-style-type: none"> <li>• Chief Internal Auditor</li> <li>• Head of Corporate Governance and Risk Management</li> </ul>	<p>The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.</p>
<b>Management Committee</b>	Has over-all management control over departments and instrumentalities of the Company.	Ensures the achievement of goals and strategies set by the Board.
<b>PAIV Committee</b>	A management committee that handles whistle blower policy cases.	Upon receipt of an incident report, the Committee conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee.
<b>Enterprise Risk Management Committee</b>	Composed of all the Risk Owners (department heads) and chaired by the CFO.	Updates the Risk Logs and monitors execution of action plans to mitigate exposures.

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

#### (a) Explain how the internal control system is defined for the company;

The Company adopts the Committee of Sponsoring Organizations of the Treadway Commission or COSO framework of internal control system which has five components – control environment, risk assessment, information and communication, control activities and monitoring.

COSO defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations".

The Company also adopts the model "Three Lines of Defense in Effective Risk Management and Control". The three lines of defense are operational management, risk management and compliance; as well as internal



**audit.**

- (b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

**The Board of Directors, through the Audit and Risk Management Committee, has reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors. The Board found the internal control system to be effective.**

- (c) Period covered by the review;

**The period covered is the year 2014. Review is conducted annually.**

- (d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

**The Company's internal controls are reviewed continuously throughout the year by the Internal Auditor. Audit reports are issued to the Audit and Risk Management Committee upon completion of the audit. Significant findings and issues are taken up in the quarterly meetings of the Audit and Risk Management Committee.**

**The directors' criteria for assessing the effectiveness of the internal control system include risks involved, materiality of the amounts, and pervasiveness of the controls as well as the cost and benefit from the exercise.**

- (e) Where no review was conducted during the year, an explanation why not.

**None. Review was conducted for year 2014.**

## 2) Internal Audit

- (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
<p>The Company's Internal Auditor conducts reviews of the Company's internal control system as mandated in its charter. Under its Charter, the primary purpose of Internal Audit is to provide an independent, objective, reasonable, systematic and disciplined evaluation of the Company's risk management, organization and procedural controls to ascertain that:</p> <ul style="list-style-type: none"><li>There is adequate and effective internal control system, including operational, financial reporting, risk management and information technology security controls.</li></ul>		In-house.	Ms. Carmelita C. Daduya	To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. The Internal Auditor is authorized to have unrestricted

<ul style="list-style-type: none"> <li>• Significant financial, managerial and operating information are accurate, reliable and timely;</li> <li>• Employee's actions are in compliance with policies, standards, procedures and applicable laws and regulations;</li> <li>• Resources are appropriately recorded and adequately safeguarded;</li> <li>• Quality and continuous improvement are fostered in the control processes of the Company;</li> <li>• Risks are appropriately identified and managed;</li> <li>• Interaction with the corporate governance group occurs as needed; and</li> <li>• Significant legislative or regulatory issues impacting the Company are recognized and addressed appropriately.</li> </ul> <p>The Charter requires the Internal Audit to do the following:</p> <ul style="list-style-type: none"> <li>• Develop an annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit and Risk Management Committee for review and approval.</li> <li>• Implement the approved annual audit plan, including special tasks or projects mandated by the Audit and Risk Management Committee.</li> <li>• Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.</li> <li>• Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit and Risk Management Committee of the results.</li> </ul>			<p>access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Risk Management Committee and Management.</p>
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<ul style="list-style-type: none"> <li>Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit to the organization at a reasonable overall cost.</li> </ul>			
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- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

**Yes. As stated in both the Audit and Risk Management Committee Charter and the Internal Audit Charter, the appointment/removal of the Internal Auditor requires the approval of the Audit and Risk Management Committee.**

- (c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

**To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. The Internal Auditor is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Risk Management Committee and Management.**

**The Internal Auditor shall be accountable to the Board, thru the Audit and Risk Management Committee, and shall;**

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.**
- Report significant issues related to the processes for controlling the activities of the organization, including potential improvements to those processes and provide information concerning such issues through resolution.**
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.**
- Coordinate with the other control and monitoring functions (risk management, compliance, security, legal, external audit).**

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
<b>None. Not applicable.</b>	

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

<b>Progress Against Plans</b>	<b>Internal Audit conducts reviews in accordance with its Approved Annual</b>
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	<b>Audit Plan.</b> Such annual plan is based on a detailed risk assessment. Every quarter, Internal Audit reports to the Audit and Risk Management Committee the status of the realization of its work plan.
<b>Issues<sup>6</sup></b>	Issues noted involved implementation of applicable accounting principles, tax rulings and real estate industry regulations. These issues are discussed with the concerned department heads and chief executives to come up with the best resolution. Consultation with external parties is also done to ascertain that the Company adopts the best practices.
<b>Findings<sup>7</sup></b>	Reported findings resulted to enhancements of financial, operational, and administrative controls. Strict compliance to established policies and procedures is emphasized to the process owners.  All findings and issues are summarized in a detailed report distributed to all department heads involved for the execution of agreed upon action plans. An executive summary is issued to the President, other chief executives and all ARMC members to highlight key issues and findings as well as the recommendations and related status. Moreover, these key issues and findings are formally discussed by the Internal Audit head during the quarterly ARMC meetings.
<b>Examination Trends</b>	High risk areas are reviewed more than once a year.  Some examinations are short term such as inventory analysis, cash operations closing procedures audit, land banking review and user access authorization.  Some audits are done on a longer period such as review of completed projects; sales reservation and documentation process as well as IT general and application controls. Some reviews are done upon request of Management.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) **Audit Control Policies and Procedures**

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

<b>Policies &amp; Procedures</b>	<b>Implementation</b>
<b>Guidelines on Planning an Engagement</b>	<b>Implemented</b>
<b>Guidelines on Compliance Audit Planning for Mall-Wide Sale</b>	<b>Implemented</b>
<b>Policies and Guidelines on Sampling Selection</b>	<b>Implemented</b>

<sup>6</sup> “Issues” are compliance matters that arise from adopting different interpretations.

<sup>7</sup> “Findings” are those with concrete basis under the company’s policies and rules.

<b>Policies and Guidelines on Communicating Engagement Results</b>	<b>Implemented</b>
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(g) Mechanism and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

<b>Auditors (Internal and External)</b>	<b>Financial Analysts</b>	<b>Investment Banks</b>	<b>Rating Agencies</b>
<b>Insider Trading Policy</b>	<b>Conflict of Interest Policy</b>	<b>Conflict of Interest Policy</b>	<b>Conflict of Interest Policy</b>
<b>Conflict of Interest Policy</b>	<p>The Company aims to conduct business in accordance with the highest standards of business ethics. To this end, all business dealings should be compliant with all applicable laws and must not in any way compromise the good name and reputation of the Company.</p> <p>All directors, officers and employees shall act with utmost integrity and shall not engage in unfair dealing practices. The Company prohibits any conflict of interest, unfair competition, breach of trust, insider trading, or any other</p>		

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

- 1) Henry Sy, Sr. – Chairman
- 2) Harley T. Sy – President
- 3) Jose T. Sio – EVP & CFO

## H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	<b>Policy</b>	<b>Activities</b>
<b>Customers' welfare</b>	Under the Company's Code of Ethics, all directors, officers and employees shall be guided by fairness, professionalism, courtesy and respect when dealing with customers and shall endeavor at all times to provide excellent and diligent service.	The Company provides its customers with quality care and service in the provision of goods and services under terms and conditions that are fair and satisfactory. All customers are given fair and proper treatment and are provided with complete, correct and actual information.
<b>Supplier/contractor selection practice</b>	Under the Company's Code of Ethics, all directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business	The Company observes propriety and acts with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company). The Company adheres to its

	with the Company. They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.	<p>principles of healthy competition, equal opportunity and fair treatment of business partners.</p> <p>The Company has a bidding committee to screen, review and approve major contracts with contractors and suppliers to ensure that it is conducted on an arm's length basis.</p> <p>Securing proposal from at least three (3) reputable contractors/service providers and selecting best offer consistent with identified business solution.</p>
Environmentally friendly value-chain	Under the Code of Ethics, the Company is committed to the protection of the environment and shall comply with all applicable environmental laws and regulations.	The Company ensures the environmental friendliness of its operations, and contributes to the overall sustainability of the physical environment where the Company operates. The Company is committed to the protection of the environment and complies with all applicable environmental laws and regulations.
Community interaction	Per the Code of Ethics, the Company shall initiate and participate in charitable causes and community organizations to improve the quality of life of the community where it operates, through education, health care and livelihood programs.	The Company respects relevant laws and/or regulations in the community where the Company operates. Compliance with those laws and regulations is strictly monitored to prevent any damage to the quality of life of society, surrounding communities and the environment. Furthermore, the Company keeps in close cooperation with its CSR arm, SM Foundation.
Anti-corruption programmes and procedures?	The Company's whistle blower policy was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any stakeholder may submit an incident report on suspected or actual violations of the Code of Ethics and Discipline or any other applicable law or regulation. Upon receipt of an incident report, management is tasked to conduct an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Anyone who in good faith reports a violation of the Code or policies or law shall not be retaliated upon or suffer harassment or adverse employment consequence.	
Safeguarding creditors' rights	Under the Code of Ethics, all directors, officers and employees	The Company observes propriety and acts with fairness and

	<p>shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with SMPHI. They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.</p>	<p>transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company). The Company adheres to its principles of healthy competition, equal opportunity and fair treatment of business partners.</p> <p>The Company strictly respects agreements with creditors, manages loans according to lending objectives, ensures timely repayment of loans and interests, thoroughly honors loan conditions as agreed and competently operates the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.</p>
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- 2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

**No. The Company works closely with SM Foundation, Inc., the CSR arm of the SM Group of Companies, to ensure the continued development of its various civic and environmental programs.**

- 3) Performance-enhancing mechanisms for employee participation.

- (a) What are the company's policy for its employees' safety, health, and welfare?

**The Code of Ethics provides that the Company shall maintain a safe, productive and conducive workplace and environment and comply with all applicable health, safety and environmental laws.**

- (b) Show data relating to health, safety and welfare of its employees.

**The Company encourages good health and wellness through its various sports and fitness programs. Employees may use the courts and fitness facilities in the workplace and are encouraged to participate in HRD supported aerobic and dance activities. The Company also conducts orientations and learning sessions on health related matters, such as breast and cervical cancer awareness and detection; influenza and hepatitis B prevention and drug abuse awareness, to name a few. Furthermore, the Company facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and has recently employed the services of a 24 hour roving ambulance service. The Company has also adopted holiday themed activities, to foster camaraderie and provide balance in a fast paced work atmosphere.**

***Data on health, safety and welfare of employees may be viewed in SMIC's website.***

- (c) State the company's training and development programmes for its employees. Show the data.

**The Company has Curriculum-Based Training Program with customized trainings for the various levels in the organization. The courses are designed to develop or enhance competencies:**

**Basic Training Program – A curriculum for Rank and File employees designed to develop basic professional**

skills to enhance productivity.

**Supervisory Development Program** – A curriculum for Officer and Supervisor levels designed to develop administrative, leadership, and decision-making skills. The focus is on supervising direct reports and managing specific work responsibilities.

**Managerial Development Program** – A curriculum for Department-level Managers designed to develop operations level management and implementation skills. The focus is on the management of specific workgroup.

**Senior Managerial Development Program** – A curriculum for Senior-level Managers designed to develop strategic management and implementation skills at the strategic business unit level.

**Executive Development Program** – A curriculum for executives designed to develop strategic –level management, implementation and control of multiple strategic business units or entire enterprise.

*Data on training and development programs of employees may be viewed in SMIC's website.*

- (d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

**The Company implements a merit-based salary increase system. Salary increases are based on the results of the individual employee's performance.**

- 4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

**The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter.**

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

- (a) Holding 5% shareholding or more\*

Shareholder	Number of Shares	Percent	Beneficial Owner
Teresita T. Sy	57,085,450	7.14	same as the record owner
Harley T. Sy	58,528,292	7.33	same as the record owner
Hans T. Sy	65,969,521	8.26	same as the record owner
Henry T. Sy, Jr.	58,460,450	7.32	same as the record owner
Herbert T. Sy	65,960,450	8.26	same as the record owner
Elizabeth T. Sy	46,722,988	5.85	same as the record owner
PCD Nominee Corp. (Filipino)	63,617,276	7.96	various clients
PCD Nominee Corp. (Non-Filipino)	279,330,616	34.97	various clients

\*as of February 28, 2015



Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Henry Sy, Sr.	31,825,500	-	0.40
Teresita T. Sy	570,854,500	-	7.14
Harley T. Sy	585,282,920	-	7.33
Henry T. Sy, Jr.	584,604,500	-	7.32
Jose T. Sio	140	-	0.00
Vicente S. Perez, Jr.	140	-	0.00
Ah Doo Lim	1,250	-	0.00
Joseph R. Higdon	1,250	-	0.00
Grace F. Roque	0	-	0.00
Marianne M. Guerrero	0	-	0.00
Elizabeth Anne C. Uychaco	0	-	0.00
Franklin C. Gomez	0	-	0.00
Cecilia Reyes-Patricio	0	-	0.00
Corazon P. Guidote	21,250	-	0.00
Frederic C. DyBuncio	0	-	0.00
Elmer B. Serrano	0	-	0.00

\*as of February 28, 2015

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	YES
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES
Training and/or continuing education programme attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	YES
Attendance details of each director/commissioner in respect of meetings held	YES
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

Not applicable.
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3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
Sycip, Gorres, Velayo & Co.	P1,900,000	P11,200,000

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

<ul style="list-style-type: none"> <li>• Website</li> <li>• Briefings</li> <li>• Press Releases</li> <li>• Annual Reports</li> </ul>
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5) Date of release of audited financial report:

<b>The audited financial report was released on 4 March 2015.</b>
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6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	YES
Financial statements/reports (current and prior years)	YES
Materials provided in briefings to analysts and media	YES
Shareholding structure	YES
Group corporate structure	YES
Downloadable annual report	YES
Notice of AGM and/or EGM	YES
Company's constitution (company's by-laws, memorandum and articles of association)	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

<b>None. Not applicable.</b>
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7) Disclosure of RPT

RPT	Relationship	Nature	Value
<b>Bank Associates</b>			
Cash placement and investment in debt securities	Bank Associates	P54,171,200	114,014,248
Interest income	Bank Associates	3,950,656	1,011,987
Loans	Bank Associates	(5,175,006)	32,021,644
Interest expense	Bank Associates	859,134	286,719
Rent income	Bank Associates	52,860	2,547
<b>Retail Entities under Common Stockholders</b>			
Rent income	Retail Entities Under Common Control	4,002,084	1,516,066
Management fee income	Retail Entities Under Common Control	713,226	154,172
Management fee	Retail Entities Under	872,853	2,020

expense	Common Control		
Dividend income	Retail Entities Under Common Control	552,768	292,917
Service income	Retail Entities Under Common Control	1,097	49,098
Due from related parties	Retail Entities Under Common Control	1,040,720	2,413,171
Due to related parties	Retail Entities Under Common Control	530,600	3,265,015
<b>Other Related Parties</b>			
Receivable under common Stockholders	Other Related Parties	(7,312,107)	52,800
Receivable for project development	Other Related Parties	1,962,578	3,084,143

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

- The terms and conditions on related party transactions are maintained at arms-length and are properly documented. Such transactions are extended at terms no less than favourable than could have been obtained if the transactions were with unrelated parties.
- All related party transactions are reviewed by senior management and are properly disclosed in the financial statements.
- Ownership of SMIC in various subsidiaries and affiliates are properly disclosed in the parent and consolidated financial statements.

## J. RIGHTS OF STOCKHOLDERS

### 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

#### (a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Per the Company's By-Laws, at each meeting of the stockholders', the holders of a majority of the outstanding capital stock of the Corporation having voting powers, who is or are present in person or represented by proxy, shall constitute a quorum for the transaction of business, save in those cases where the Corporation Code requires the presence at the meeting, in person or by proxy, of a greater proportion of the outstanding capital stock.
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#### (b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	Vote of stockholders
Description	Corporate acts are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company.

#### (c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
None.	

#### Dividends

Declaration Date	Record Date	Payment Date
<b>30 April 2014</b>	<b>30 May 2014</b>	<b>26 June 2014</b>

#### (d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>Notice of the Annual Stockholders' Meeting was given to all stockholders at least 21 business days before the meeting to provide stockholders with enough time to examine the information. The Notice enclosed essential and adequate facts on all items on the agenda for consideration and approval of the stockholders.</p> <p>As provided for in the Company's Manual on Corporate Governance, minority stockholders have the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Information Statement</li> </ul>
<p>To facilitate stockholders who cannot attend the meeting, they are encouraged to fill out, date, sign and send a proxy. For corporate stockholders, the proxies should be accompanied by a Secretary's Certificate on the appointment of the corporation's authorized signatory.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Proxy Forms</li> <li>• Information Statement</li> </ul>
<p>To ensure that all stockholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Senior Management, Corporate Secretary and the Independent Auditors are always present during the Annual Stockholders' Meeting. The meeting agenda provides an opportunity for stockholders to freely express their views and raise their concerns at the meeting.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Information Statement</li> </ul>

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - a. Amendments to the company's constitution

- b. Authorization of additional shares
- c. Transfer of all or substantially all assets, which in effect results in the sale of the company

**Corporate acts such as amendments to the Company's constitution, authorization of additional shares, and the transfer of all or substantially all assets, which in effect results in the sale of the Company, are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company. The agenda enclosed in the Notice of Annual Stockholders' Meeting would include such corporate acts for the consideration and approval of the stockholders.**

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

**Yes, the Company observes the minimum of 21 business days for the release of ASM notices. As may be seen in the date that the Notice of ASM was sent out (4 March 2015) and the Date of the Annual Stockholders' Meeting (29 April 2015).**

a. Date of sending out notices: **4 March 2015**

b. Date of the Annual/Special Stockholders' Meeting: **29 April 2015**

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

**The floor was opened to questions and there were no questions asked.**

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
<b>Approval of the Annual Report for the year 2012.</b>	<b>Majority</b>	<b>None.</b>	<b>None.</b>
<b>Ratification of all acts of the Board of Directors and Management from the previous ASM to date of the current ASM.</b>	<b>Majority</b>	<b>None.</b>	<b>None.</b>
<b>Election of Directors to serve for the period of 2014-2015, or until their successors shall have been duly elected and qualified.</b>	<b>Majority</b>	<b>None.</b>	<b>None.</b>
<b>Re-appointment of Sycip, Gorres, Velayo &amp; Co. as external auditor for the period of 2014-2015.</b>	<b>Majority</b>	<b>None.</b>	<b>None.</b>

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

**The results of the votes taken during the most recent ASM were published on 30 April 2014.**

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
<b>None.</b>	

(f) Stockholders' Attendance

- (i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Henry Sy, Sr. Teresita T. Sy Henry T. Sy, Jr. Harley T. Sy Jose T. Sio Ah Doo Lim Joseph R. Higdon	30 April 2014	may be by ballot if requested by voting stockholders	50.9%	35.68%	86.58%

- (ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

**Yes. The Company's External Auditor serves as the independent party that counts/validates votes during the ASM.**

- (iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

**Yes. Per the Company's By-Laws, common shares carry one vote for one share.**

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Notary	Notarization of proxies is not required.
Submission of Proxy	Proxies must be filed with the Corporate Secretary at least five (5) days before the stockholders' meeting.
Several Proxies	Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Validity of Proxy	In compliance with the Corporation Code, unless otherwise provided in the proxy, said proxy shall only be valid for the meeting for which it is intended. No proxy shall be valid or effective for a period longer than five (5) years.
Proxies executed abroad	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation, regardless if they are abroad.
Invalidated Proxy	Two inspectors may be appointed by the Board of Directors before or at each meeting of the stockholders of the corporation, at which an election of directors shall take
Validation of Proxy	

Violation of Proxy	place; the inspectors shall receive and take charge of all proxies and ballots and shall decide all questions touching upon the qualifications of voters, the validity of proxies and the acceptance and rejection of votes.
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(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Based on the Company's By-Laws, <i>except as otherwise provided by law, written or printed notice of all annual and special meetings by stockholders, stating the place and time of the meeting and, if necessary, the general nature of the business to be considered, shall be transmitted by personal delivery, mail, telegraph, facsimile or cable to each stockholder or record entitled to vote thereat at his last known address appearing on the corporate books of the Corporation at least fifteen (15) business days before the date of the meeting, unless a shorter period is or hereafter allowed under the law or the rules of the Securities and Exchange Commission. Except where expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. If any stockholder shall in person or by attorney-in-fact authorized in writing or by telegraph, cable or facsimile, waive notice of any meeting, whether before or after the holding of such meeting, notice need not be given to him. Notice of any adjourned meeting of the stockholders shall not be given, except when expressly required by law. No failure or irregularity of notices of any regular meeting shall invalidate such meeting at which all the stockholders are present or represented and voting without protest.</i>	In practice, the Company sends out notice of annual or special stockholders' meeting at least twenty-one (21) calendar days before the actual meeting. Included with the notice are the documents required for proxy voting, copies of the annual report, information statement and other relevant materials pertaining, but not limited to information on nominated directors and external auditors (for appointment or re-appointment) and resolutions to be taken up during the meeting.

(i) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	1,237
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	4 March 2015
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	4 March 2015

<b>State whether CD format or hard copies were distributed</b>	<b>CD formats were distributed.</b>
<b>If yes, indicate whether requesting stockholders were provided hard copies</b>	<b>Yes, stockholders were provided hard copies.</b>

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

<b>Each resolution to be taken up deals with only one item.</b>	<b>Yes.</b>
<b>Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.</b>	<b>Yes.</b>
<b>The auditors to be appointed or re-appointed.</b>	<b>Yes.</b>
<b>An explanation of the dividend policy, if any dividend is to be declared.</b>	<b>Under study.</b>
<b>The amount payable for final dividends.</b>	<b>Under study.</b>
<b>Documents required for proxy vote.</b>	<b>Yes.</b>

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

**Inclusion of the dividend policy and the amount payable in the Notice of the Annual Stockholders' Meeting is currently being studied by the Company. The Notice of the Annual Stockholders' Meeting includes the stock dividends in the agenda.**

## 2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

<b>Policies</b>	<b>Implementation</b>
<b>Manual on Corporate Governance</b>	<p>The Company's Manual on Corporate Governance provides for the rights of its minority stockholders. Rights include, but are not limited to the following:</p> <ul style="list-style-type: none"> <li>• Voting Rights</li> <li>• Appraisal Right</li> <li>• Inspection Right</li> <li>• Right to Information</li> <li>• Right to Dividends</li> </ul>
<b>Code of Ethics</b>	<p>The Company's Code of Ethics provide for the following:</p> <ul style="list-style-type: none"> <li>• The Company respects and protects the rights of its shareholders. The Company shall adopt strategies and plans with the end view of increasing shareholder value.</li> <li>• The Company shall maintain complete</li> </ul>



	<p>and accurate books of accounts and records in accordance with applicable laws and standards. The Company shall also ensure an independent audit of its financial statements by external auditors. The Company shall maintain a system of internal controls to ensure that financial reports present fairly the financial position and operations results of the Company.</p> <ul style="list-style-type: none"> <li>• Shareholders shall be provided with complete, accurate, material and timely information regarding their investment and the Company's operations. To this end, the Company undertakes to publicly disclose all material information, including its results of operations and financial position.</li> </ul>
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(b) Do minority stockholders have a right to nominate candidates for board of directors?

**Yes. Under the Company's By-Laws and Corporate Governance Manual, it is a stockholders right to nominate candidates to the Board.**

#### K. INVESTORS RELATIONS PROGRAM

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

**For financial results, the disclosure is quarterly. All results have to be presented to the audit committee and the board for approval and eventually approved by the Chief Information Officer for distribution to the public. One off items such as material disclosures relating to capital expenditures, fund raisings, project launches, etc. are disclosed upon approval of the management committee and the chief information officer.**

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	<ul style="list-style-type: none"> <li>• Assist investors in making investment decisions with regard to shares of SM and its listed subsidiaries.</li> <li>• Guide analysts in formulating their forecasts and recommendations with regard to the valuation and prospects of SM and its listed subsidiaries.</li> <li>• Provide the regulators, the media and the general public with the most current information about SM Investments and all of its core businesses which will have a material impact on the company's overall growth and profitability.</li> <li>• Ensure that material disclosures are immediately disseminated without prejudice to any one group</li> </ul>
(2) Principles	<ul style="list-style-type: none"> <li>• Transparency and accountability to all existing and</li> </ul>

	<p><b>potential investors</b></p> <ul style="list-style-type: none"> <li>• <b>Fairness and level playing field for all stakeholders</b></li> </ul>
<b>(3) Modes of Communications</b>	<ul style="list-style-type: none"> <li>• <b>Direct: One-on-one meetings, roadshows, investor conferences, teleconference and video conference</b></li> <li>• <b>Web based: Website, email services Analyst and media briefings, press conferences, TV/radio guestings</b></li> <li>• <b>Social media: Twitter</b></li> <li>• <b>Print: PSE/SEC filings, annual reports, powerpoint presentations, press releases, speeches</b></li> </ul>
<b>(4) Investors Relations Officer</b>	<b>Corazon Guidote, Timothy Daniels</b>

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

**Due diligence, benchmarking, market dynamics, long-term sustainability of the business, synergies with the whole group, cost implications, core competency, board approval, regulatory approvals. All these are done for both acquisition and sale of assets.**

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

**The names of the independent parties vary and will depend on the type of transactions. SM deals with a host of investment banks, external auditors, third party appraisers, legal and tax consultants.**

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

<b>Initiative</b>	<b>Beneficiary</b>
<p><b>MEDICAL:</b></p> <ul style="list-style-type: none"> <li>a) Medical Missions</li> <li>b) Oral Health Program</li> <li>c) Blood Bank for SM Employees</li> <li>d) Operation Tulong Express Medical Missions</li> <li>e) Felicidad Sy Health Center</li> <li>f) Felicidad Sy Pediatric Wards</li> <li>g) Hospital Wards for AFP Facilities</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Indigent families within the vicinity of SM Malls.</b></li> <li>• <b>Kinder and Grade 1 Pupils of Bulihan Elementary School, Nasugbu, Batangas.</b></li> <li>• <b>SM Employees and family members.</b></li> <li>• <b>Residents of areas that had been affected by calamities and disasters.</b></li> <li>• <b>Public Health Centers constituents</b></li> <li>• <b>Children who are confined at Government Hospitals</b></li> <li>• <b>AFP Personnel and their family</b></li> </ul>
<p><b>EDUCATION:</b></p> <ul style="list-style-type: none"> <li>a) <b>SM College Scholarship Program, 1200 college scholars nationwide and 164 graduated scholars</b></li> <li>b) <b>SM College Scholarship Program opening in Tacloban and Cauayan, Isabela</b></li> <li>c) <b>Scholarship Grant to 60 college students of Mindanao University of Science and Technology</b></li> <li>d) <b>Managed the Search for the Ten</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Different provinces in Luzon, Visayas and Mindanao</b></li> <li>• <b>Graduating 4<sup>th</sup> year public high school students from Tacloban and Cauayan, Isabela</b></li> <li>• <b>College students of MUST in Cagayan de Oro</b></li> <li>• <b>Graduating public students nationwide</b></li> </ul>

<p><b>Outstanding Public School Students (TOPSS) Scholarship Program of the Kabayan Noli de Castro Foundation</b></p> <p>e) Technical Vocational Program, Punlaan Schools' 2 year course in Food and Beverage and Don Bosco Makati's 2 year courses in automotive, welding, air conditioning, machine operation etc.</p> <p>f) School building construction, repairs, donation of school chairs and used computers, and donations to Brigada Eskwela</p>	<ul style="list-style-type: none"> <li>Supported 90 scholars and 39 scholars</li> <li>Public schools in different provinces</li> </ul>
<p><b>CSR:</b></p> <p>a) Support for Children and Youth Organizations</p> <p>b) Support for Organizations for the Disabled</p> <p>c) Support for Health Organizations</p>	<ul style="list-style-type: none"> <li>Child Protection Network, Children of Inmates of Correctional Inst. for Women, Children's Hour Phils. Inc., CURE Our Child Foundation Inc., Haven For Children, Museo Pambata Foundation Inc., National Statistics Office-NCR, Northville Youth Reliable Organization, Phil. Asia Assistance Foundation Inc., 4<sup>th</sup> Light Armor Battalion, Tuloy Foundation Inc., Virilanie Foundation Inc.</li> <li>Create a Job for the Disabled, Handicapped Care Association, Philippine Institute for the Deaf</li> <li>Philippine Cancer Society, Philippine Leprosy Mission Inc., Philippine Tuberculosis Society Inc.</li> </ul>
<p><b>LIVELIHOOD:</b></p> <p>a) Kabalikat Sa Kabuhayan Farmers Training Program</p> <p>b) Skills Training (Hospitality, Food &amp; Beverages, Wait Service)</p> <p>c) Landscaping Installation and Maintenance</p> <p>d) Animal Dispersal (Hog, Free Range Chicken, Carabao)</p>	<ul style="list-style-type: none"> <li>Marginalized Farmers from different provinces near SM Malls</li> <li>Out-of-school youth from Nasugbu, Batangas</li> <li>Out-of-school youth from Nasugbu, Batangas</li> <li>Marginalized Farmers of Nasugbu, Batangas</li> </ul>

**M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL**

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	Under the guidance of the Nomination Committee, the Board conducts an annual performance self-evaluation. The performance evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for by the Manual on Corporate	<ul style="list-style-type: none"> <li>Diversity of competencies</li> <li>Adequate knowledge of different risks</li> <li>Industrial background</li> <li>Academic qualifications</li> <li>Work in general</li> <li>Decision making</li> <li>Discussions on short &amp;</li> </ul>

<b>Board Committees</b>	<p><b>Governance and By-Laws.</b> Directors are asked to rate the performance of the Board, the Board Committees, themselves as directors and the President, as the embodiment of Management.</p> <p>Directors are also asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body.</p>	<p>long term developments</p> <ul style="list-style-type: none"> <li>• Discussions on business strategies and plans</li> <li>• Discussions on risks and regulations</li> <li>• Promotion of good governance principles</li> <li>• Promotion of continuing education</li> </ul>
<b>Individual Directors</b>		<ul style="list-style-type: none"> <li>• Independence</li> <li>• Participation</li> <li>• Expertise</li> </ul>
<b>CEO/President</b>		<ul style="list-style-type: none"> <li>• effective leadership</li> <li>• integrity</li> <li>• diligence</li> <li>• corporate governance</li> </ul>

#### N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

<b>Violations</b>	<b>Sanctions</b>
Any violation of a provision found in the Manual on Corporate Governance.	<p>a) In case of first violation, the subject person shall be reprimanded.</p> <p>b) Suspension from the office shall be imposed in case of a second violation. The duration of the suspension shall depend on the gravity of the violation. This shall not be applicable to directors.</p> <p>c) For third violation, the maximum penalty of removal from office shall be imposed. With regards to directors, the provision of Section</p>

	28 of the Corporation Code shall be observed.
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Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report was signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Pasay in 2012.

#### SIGNATURES

***Original Signed***  
Henry Sy, Sr.  
**Chairman of the Board**

***Original Signed***  
Harley T. Sy  
**Chief Executive Officer**

***Original Signed***  
Ah Doo Lim  
**Independent Director**

***Original Signed***  
Joseph R. Higdon  
**Independent Director**

***Original Signed***  
Atty. Corazon I. Morando  
**Compliance Officer (in 2012)**

Furthermore, this Annual Corporate Governance Report is a fair representation of the updates discussed and approved by the Board of Directors during their recent board meeting held on 4 March 2015.

  
**ATTY. MARIANNE R. GUERRERO**  
Senior Vice President, Legal & Compliance Officer

## SECRETARY'S CERTIFICATE

KNOW ALL MEN BY THESE PRESENTS:

I, **Atty. MARIANNE M. GUERRERO**, Filipino, of legal age, and being the duly elected and incumbent Assistant Corporate Secretary of **SM INVESTMENTS CORPORATION ("SMIC" or the "Corporation")**, a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at 10<sup>th</sup> Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, Pasay City, do hereby certify that:

At the regular meeting of the Board of Directors of the Corporation held on March 4, 2015 at the Board Room, 17<sup>th</sup> Floor, L.V. Locsin Building, 6752 Ayala Avenue corner Makati Avenue, Makati City, in which meeting a quorum was present and acting throughout, the Board approved the updates and changes in its Annual Corporate Governance Report, to wit:


- A. Board Matters
  - i. Information on the Board of Directors
  - ii. Directorship of members of the Board of Directors within the Group
  - iii. Directorship of members of the Board of Directors in other reporting companies
  - iv. Shareholdings of members of the Board of Directors in the Corporation
  - v. Voting results of the last Annual General Meeting
  - vi. Continuing education programs attended by members of the Board of Directors and Key Officers
- B. Board Meeting and Attendance
- C. Remuneration Matters
- D. Board Committees
  - i. Changes in Committee Members
  - ii. Board Committee information
- E. Disclosure and Transparency
  - i. Ownership Structure
  - ii. External Auditor's Fees
- F. Rights of Stockholders
  - i. Results of the Annual General Meeting resolutions
  - ii. Details of attendance of the Annual General Meeting "

The foregoing is in accordance with the records of the Corporation in my custody.

IN WITNESS WHEREOF, this Certificate has been signed this APR 13 2015 at MAKATI CITY.

  
**Atty. MARIANNE M. GUERRERO**  
Assistant Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 13 2015 at MAKATI CITY, affiant exhibiting to me her SSS I. D. with No. 03-9638469-2.

  
**ARTHUR A. SY**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2015  
PTR NO. 4758714 / 01.08.15 / MAKATI CITY  
IBP LRN 548832 / 01.07.02 / PPLM  
TIN-174-674-196 ROLL NO. 40024

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