SM PRIME HOLDINGS

We Build to Serve Millions

2012
ANNUAL REPORT

We Build to Serve Millions

For more than fifty years, SM stood strong amidst the highs and lows of the Philippine economy, successfully branching out from a small shoe store into a wide range of services. Its mall subsidiary, SM Prime Holdings, Inc. is a strong catalyst of growth and progress wherever it goes, bringing with it new jobs, business opportunities, and increased revenues for local governments. More than a leader in mall development which generates economic activity, SM Prime promotes positive change through efforts that aim to address environmental sustainability; providing care and assistance to persons with disabilities, nursing mothers, overseas Filipino workers, the elderly; and, providing learning channels for the youth. SM Prime's excellence, innovation and commitment to growth continue to improve the lives of millions it serves nationwide.

With the Philippines now on a wave of sustained economic growth, SM Prime will further expand its mall operations to help bring greater progress for the country's present and future generations.

At SM Prime, we build to serve millions.

SM MALL TIMELINE

SM PRIME HOLDINGS

- 1985 North EDSA, Q.C. 424,691 sqm
- 1990 Sta. Mesa, Manila 133,327 sqm
- 1991 Megamall, Pasig 405,435 sqm
- 1993 Cebu 274,236 sqm
- 1995 Southmall, Las Piñas 205,120 sqm
- 1997 Bacoor 120,202 sqm
- 1997 Fairview, Q.C. 188,681 sqm
- 1999 Iloilo 105,953 sqm
- 2000 Manila 167,812 sqm
- 2000 Pampanga 132,484 sqm
- 2001 Sucat, Parañaque 98,106 sqm
- 2001 Davao 78,735 sqm
- 2002 Cagayan de Oro 87,940 sqm
- 2002 Bicutan, Parañaque 113,671 sqm
- 2003 Lucena 78,655 sqm
- 2003 Baguio 107,950 sqm
- 2003 Marilao 93,910 sqm
- 2004 Dasmariñas 94,285 sqm
- 2004 Batangas 80,350 sqm
- 2005 San Lazaro, Manila 178,516 sqm
- 2005 Valenzuela 70,681 sqm
- 2005 Molino 52,061 sqm
- 2006 Sta. Rosa 86,463 sqm
- 2006 Clark 101,840 sqm
- 2006 Mall of Asia, Pasay 406,961 sqm
- 2006 Pasig 29,602 sqm
- 2006 Lipa 77,301 sqm
- 2007 Bacolod 71,752 sqm
- 2007 Taytay 98,928 sqm
- 2007 Muntinlupa 54,292 sqm
- 2008 Marikina 178,485 sqm
- 2008 Rosales 63,330 sqm
- 2008 Baliwag 61,262 sqm
- 2009 Naga 74,275 sqm
- 2009 Las Piñas 40,267 sqm
- 2009 Rosario 59,326 sqm
- 2010 Tarlac 101,629 sqm
- 2010 San Pablo 59,643 sqm
- 2010 Calamba 67,384 sqm
- 2010 Novaliches, Q.C. 60,560 sqm
- 2011 Masinag Antipolo City, Rizal 90,261 sqm
- 2012 Olongapo 47,426 sqm
- 2012 Consolacion 106,857 sqm
- 2012 San Fernando 42,625 sqm
- 2012 General Santos 95,764 sqm
- 2012 Lanang 144,000 sqm

CHINA MALLS

- 2001 Xiamen 128,203 sqm
- 2005 Jinjiang 167,830 sqm
- 2006 Chengdu 166,665 sqm
- 2009 Lifestyle Center, SM Xiamen 109,922 sqm
- 2011 Suzhou 72,552 sqm
- 2012 Chongqing 149,076 sqm

PRIME
HOLDINGS

Our Vision

SM Prime envisions to be a leader in world-class mall development, committed to deliver the daily needs of millions by offering a total mall experience and creating a richer, better quality of life.

Our Mission

SM Prime commits to the following mission:

To constantly provide customers with a fresh and world-class mall experience through innovative and state-of-the-art facilities and services;

To undertake wide-ranging corporate social responsibility initiatives that provide greater service for customers with special needs, and ensure environmental sustainability through various programs on energy, water and air conservation;

To be an employer of choice, offering comprehensive opportunities for career growth and enhancement;

To deliver sustainable long-term growth and increasing shareholder value; and

To uphold its role as a catalyst for economic development.

Core Values

VISION • LEADERSHIP • INNOVATION • FOCUS • HARD WORK • INTEGRITY • PRUDENCE

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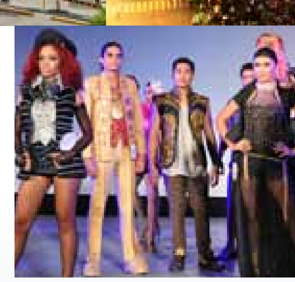


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CFO OF THE YEAR 2012


I AM DELIGHTED TO REPORT THAT SM PRIME HOLDINGS, INC. ENDED 2012 WITH EXCELLENT RESULTS, AGAIN SURPASSING ITS TARGETS FOR THE YEAR.

The company's consolidated net income grew 16.3% to Php10.53 billion. Revenues likewise rose 14% to Php30.73 billion driven by rental revenues from new malls launched since 2011 as well as rental revenues from existing malls. The company's shopping malls in China performed well, with net income amounting to Php1.10 billion in 2012 or a growth of 24% year-on-year.

In the Philippines, we opened five malls- SM City Olongapo in Zambales, SM City Consolacion in Cebu, SM City San Fernando in Pampanga, SM City General Santos in South Cotabato and SM Lanang Premier in Davao City. We continue to expand significantly toward the provincial areas, particularly in Southern Philippines where we see significant growth opportunities. These new malls have brought our total to 46 malls in the country by the end of 2012.

Our malls in China, which now contribute 10% to our total net income, remain a bright spot, with certain cities emerging as growth centers. In 2012, we opened our fifth mall, SM Chongqing, Southwest China which added to our existing malls in Xiamen, Jinjiang, Chengdu and Suzhou.

In 2013, we are scheduled to complete the expansion of SM Megamall in Mandaluyong City and open two new malls, SM Aura Premier in Taguig and SM City Cauayan in Isabela. With these new malls, we will have a mall network of 48 malls in the Philippines by 2013.

Beyond the numbers, we continue to look for opportunities to better serve our customers and communities, catering to their needs, both immediate and long-term. Through SM Cares, the CSR initiative of SM Prime, we continue to support activities geared towards caring for the environment, persons with disabilities, the youth, women, overseas Filipino workers, and the elderly. Recovery efforts in response to weather-related disasters likewise went into full swing through assistance and temporary shelter for affected families.

Even after 46 malls, SM Prime remains dedicated and committed to its mission as a catalyst for economic development. As we continue to expand and develop malls, we bring about greater progress to generations today and in the future.

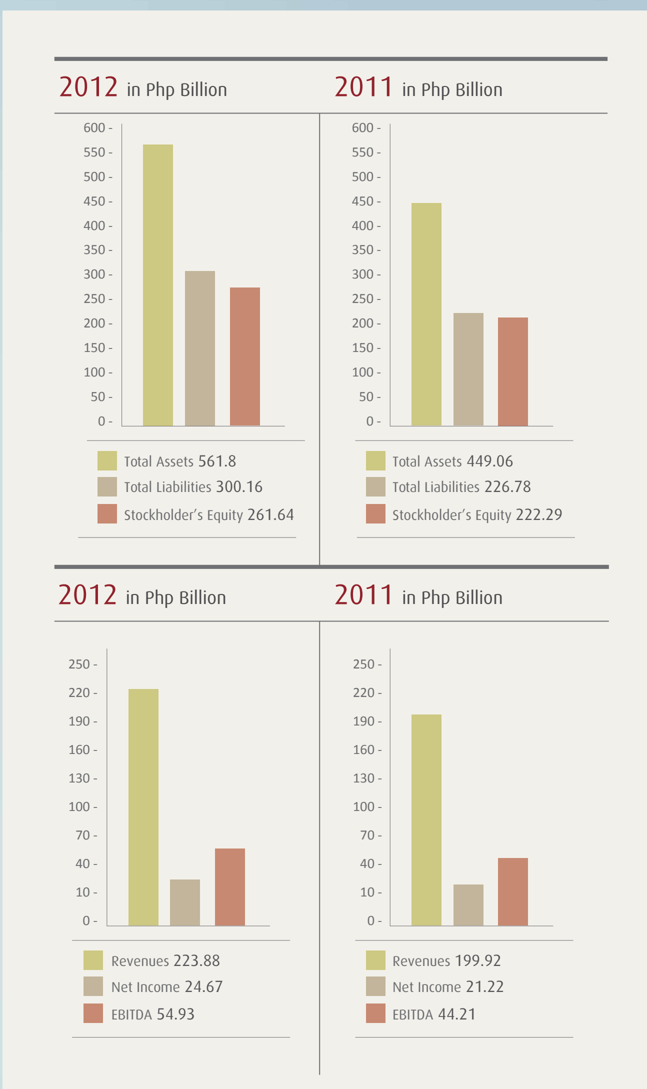
We thank you, our shareholders for your confidence in our work. We also thank the management, our contractors, consultants and tenants for your support. Most of all, we are grateful to our millions of customers who continue to brighten up our malls. We build, not only to reinforce the economy and drive the nation forward, but more importantly, to serve you.

HENRY SY, SR.
Chairman

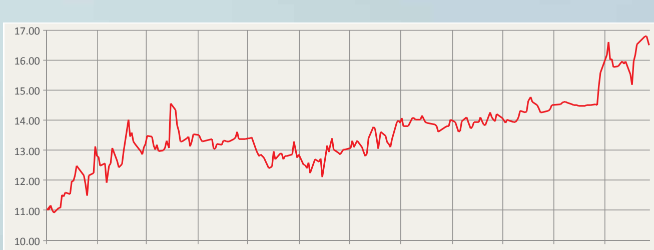
I AM VERY PLEASED TO REPORT THAT 2012 WAS A BANNER YEAR FOR SM PRIME, AS WE EXCEEDED OUR REVENUE AND INCOME TARGETS, AND SUCCESSFULLY EXECUTED OUR AGGRESSIVE EXPANSION PROGRAM.

Owing to the consumer-centric business model which we have developed over the years, and our presence in most of the country's growth centers, we were a natural beneficiary of the country's strong economy. This was marked by the progressive rise in consumer spending in four successive quarters, a benign inflation environment, and the continued rise in the flow of remittances from abroad.

We delivered a full-year growth of 16.3% in consolidated net income of Php10.5 billion, on revenues which rose 14.2% to Php30.7 billion, resulting in a net margin of 34.3%. Rental fees, which are our primary source of revenues, increased 14% to Php 25.9 billion, driven by robust same store sales growth of 8%, and rentals coming from the new malls we opened during the year. EBITDA, meanwhile, increased 12.1% to Php20.7 billion, for an EBITDA margin of 67.3%. These figures reflect the results of our China operations, which likewise delivered a strong performance, posting a 24.1% increase in consolidated net income to Php1.1 billion.



SHARE PRICE CHART (January to December 2012)



Looking at SM Prime's expansion during the year, we opened five malls in the Philippines, namely SM City Olongapo in Zambales, SM City Consolacion in Cebu, SM City San Fernando in Pampanga, SM City General Santos in South Cotabato, and SM Lanang Premier in Davao City. We also completed the expansion of SM City Davao. These new malls, as well as the expansion of SM City Davao, added about 500,000 square meters (sqm) of new mall space to our total Philippine gross floor area (GFA), increasing it 10% to 5.6 million sqm. SM Prime now owns and operates 46 Philippine malls which house a total of 13,549 tenants, and attract more than 3.5 million shoppers daily.

Our expansion in 2012 reflects our strategy over the last decade or so of branching out into fast-growing provincial areas, in addition to expanding our existing malls. In China, we have followed a similar growth strategy, building malls in second- and third-tier cities, where incomes are rising, and where the intensity of competition remains low. In 2012 we opened the 149,080 square-meter SM Chongqing, our fifth mall in the country, following through on the success of our four existing malls, namely SM Xiamen, SM Jinjiang, SM Chengdu, and SM Suzhou. The opening of SM Chongqing brought our China GFA to 794,252 sqm, 23% more than in 2011. The five SM Malls in China are home to 1,723 tenants, and are visited by 200,000 customers everyday.

Given the strong fundamentals of the Philippine economy, we will pursue our expansion plans. In 2013, we will open malls in Taguig and in Cauayan, Isabela. We will also inaugurate our 101,000 sqm expansion of SM Megamall, which will result in transforming SM Megamall into our biggest mall in the Philippines, with a GFA of 506,435 sqm.

With its huge and growing consumer market, China will continue to offer opportunities for us. Currently, we have two malls under construction in the country, both of which will be launched in 2014. These are SM Zibo, with a GFA of 154,000 sqm and SM Tianjin, which, with a GFA of 540,000 sqm will surpass SM Megamall as the largest in our mall portfolio. SM Tianjin will also be our largest mall in China.

Our growth throughout the years leaves little doubt on our commitment to enhancing shareholder value. At the same time, we are also committed to creating value for the communities we serve. Throughout the year, we remained steadfast in our commitment to corporate social responsibility (CSR), through the activities of our SM Cares program.

SM Cares integrates socially responsible corporate initiatives into SM Prime's business operations. For example, SM Cares has been instrumental in introducing provisions for persons with special needs at SM malls across the country. SM Cares also implements environmentally-friendly technology and processes in the design, construction, and operation of SM malls. In addition, SM Cares runs various programs throughout SM malls that relate to breastfeeding mothers, overseas Filipino workers, the elderly, tourism, and entrepreneurship.

SM Cares also leverages on the pervasive presence of SM malls to provide emergency response programs by giving temporary shelter, distribution of relief goods, and medical missions in times of calamity. This is done in partnership with SM Foundation, government, and non-government organizations.

I would like to take this opportunity to acknowledge the contribution of management, our staff, tenants, suppliers, customers and you, our shareholders to SM Prime's continuing success. Thank you very much for your unwavering support.

MR. HANS T. SY
President

Year in Review
Mall Operations

JEFFREY C. LIM
Executive Vice President
and CFO
SM Prime Holdings, Inc.

ANNIE S. GARCIA
President
Shopping Center Management Corporation

HANS T. SY
President
SM Prime Holdings, Inc.

In 2012, we continued to keep our fingers on the pulse of Filipino consumers, with a view towards ensuring that the shopping, dining, and entertainment offerings of our malls are attuned to their rapidly-changing needs and preferences.

We are pleased to report that we ended 2012 with very strong results. Revenues rose 14.2% to Php30.7 billion, driven by same-store rental growth of 8% and rentals from the new malls which opened during the year. Net income, on the other hand, increased 16.3% to Php10.5 billion.

Our performance in 2012 can be attributed largely to the following factors. First is our unmatched national footprint, both in terms of gross floor area (GFA) and in terms of geographical reach, which allowed us to benefit from rising consumers incomes, brought on by the Philippines' economic resurgence; second is our continuing expansion toward new markets; and third is our continuing effort to provide Filipinos with an exciting mall experience. At the same time, our China operations – which consisted of four malls at the beginning of the year – delivered strong results, contributing to our overall performance.

We began 2012 with a total of 41 malls around the country. These malls had a combined GFA of 5.1 million square meters (sqm). Sixteen or 39% of our malls were located in Metro Manila; twenty (49%) in Luzon ex-Metro Manila; three (7%) in the Visayas; and two (5%) in Mindanao. In terms of GFA, Metro Manila accounted for 53% of our total, while Luzon ex-Metro Manila, Visayas, and Mindanao accounted for 34%, 9%, and 4%, respectively. The breakdown of our malls by geographical location and GFA broadly mirrors the pattern of economic activity in, and the population distribution of, the country. As such, we were uniquely well-positioned to benefit from the robust growth of the overall economy in 2012.

This notwithstanding, we continued to pursue further opportunities for growth during the year, increasing our total number of malls to 46, with the opening of five new malls in emerging growth centers across the country – SM City Olongapo in Zambales, SM City San Fernando in Pampanga, SM City Consolacion in Cebu, and SM City General Santos and SM Lanang Premier in Mindanao. We also completed the major expansion of SM City Davao. These new malls, as well as the expansion of SM City Davao, brought our GFA in the country to 5.6 million sqm, an increase of 10% from the previous year.

We plan to continue to expand our geographical reach moving forward, in line with and at same time, as a catalyst for the economic development of various parts of the country. We are also looking to further expand our existing malls as demand for mall space increases.

Although a large number of our malls are concentrated in Metro Manila, we believe that Metro Manila continues to present significant growth opportunities in the form of expanding existing malls and establishing or operating smaller, community malls in relatively underserved areas of the city.

We plan to venture into community malls not only in Metro Manila, but in other areas of the country as well. In line with this, we entered into a joint venture agreement with Walter Mart, a community shopping center operator. Walter Mart currently operates 17 malls across Luzon with an average GFA of 17,000 sqm.

In 2012, we continued to keep our fingers on the pulse of Filipino consumers, with a view towards ensuring that the shopping, dining, and entertainment offerings of our malls are attuned to their rapidly-changing needs and preferences.

We observed that especially in the relatively affluent, metropolitan areas of the country, a growing number of our customers were becoming more sophisticated, in line with their increased purchasing power.

This rising sophistication has been reflected by trends towards casual dining, designer coffee, high-tech phones and other devices, as well as health, beauty, and wellness products and services. We have also seen an increased preference for international brands. We have kept in step with these trends by continually updating our tenant mix across our malls, and, in the case of SM Southmall in Las Piñas, by redeveloping the existing mall to cater to a market that had grown more upscale. A more detailed story on SM Southmall is provided on page 18.

At our premier malls like SM Mall of Asia, SM Megamall and SM North EDSA, for example, our tenant mix has been characterized not only of by a large number of local brands, but also by the significant and growing presence of international brands such as Marks & Spencer, Topshop, Nine West, Kenneth Cole, and Zara. We also brought in two new international fashion brands, UNIQLO and Forever 21. These brands have been warmly received and have experienced promising sales. In the future, we plan to introduce more international brands into the country.

An important part of the mall experience we offer is our cinemas. In 2012, we completed the conversion of all our cinemas to digital. This enabled us to simultaneously show movies nationwide, strongly benefitting our provincial moviegoers across the country. We also introduced the SM Cinema E-plus prepaid card, which aims to promote customer loyalty by providing moviegoers with hassle-free movie access.

Although our focus has always been on consumers, we also cater to the country's growing business process outsourcing (BPO) sector. A number of our malls are home to BPO offices namely, SM City Bacoor, SM City Fairview, SM City Iloilo, SM City Lipa, SM North EDSA, SM Mall of Asia, and SM City Pampanga. At the end of 2012, BPOs occupied a combined 65,269 sqm of space at our malls.

As for our expansion plans for 2013, in the Philippines, we will open two new malls, SM Aura in Taguig City with a GFA of 234,892 sqm; and SM City Cauayan in Isabela province with a GFA of 55,000 sqm. We will also expand SM Megamall with the opening of Building D, which will have a GFA of 101,000 sqm. All these will increase the total GFA of our Philippine malls by 390,892 sqm to 6.0 million sqm or a 7.0% increase from our end-2012 total.

Our operations in China also yielded strong results in 2012. Our five malls, namely SM Xiamen, SM Jinjiang, SM Chengdu, SM Suzhou, and SM Chongqing, performed very well, registering rental revenue growth of 24% on a consolidated basis. Moreover, the average occupancy levels of these malls at year-end stood at 92%. We launched SM Chongqing, our fifth mall in the country, in December 2012. With the opening of SM Chongqing, our GFA in China now totals 794,252 sqm, a 23% increase from 2011.

As in the Philippines, we remain focused on satisfying the needs of our customers in China by carefully calibrating our tenant mix, and are pleased to see our base of tenants grow larger, as we gain acceptance in the country.

In 2013, we look forward to higher revenues as our China malls mature and enjoy increased occupancy levels. Although we will not be opening new malls in China in 2013, we will launch two new malls in 2014, namely SM Zibo and SM Tianjin. SM Zibo will have a GFA of 154,000 sqm, while SM Tianjian will have a GFA of 540,000 sqm making it the largest mall in our portfolio. We continue to explore opportunities to open new malls in China, particularly in second and third-tier cities with attractive demographic profiles. In such cities, competition remains manageable, and incomes are rising even faster than in the Philippines.

Our discussion of 2012 would be incomplete without touching on SM Cares. This is our socio-civic projects integrated into our mall development and customer service which promote environmental sustainability, or provide extra services and facilities that cater to customers with special needs.

One activity that stood out in 2012 was our response to the adverse impact of the heavy monsoon rains that caused widespread flooding throughout Metro Manila. Amidst the flooding, our numerous malls served as shelters for flood victims – stranded commuters, customers, and tenants. The multi-level parking spaces in SM malls also allowed those with cars in flooded areas to park their cars to safety. Our malls also served as hubs for accepting donations coursed through the SM Foundation. Despite the continuous downpour and heavy flooding, our employees and volunteers from various sectors worked together in helping the members of the community. It is especially during times such as these that we feel we are truly one with the communities we serve.

2012 was undoubtedly a remarkable year for us at SM Prime. We look to 2013 with much optimism as we pursue our business strategies and explore new opportunities for growth, with the goal of creating lasting value for our customers, staff, tenants, and shareholders.

MALL EVENTS - PHILIPPINES

"My City, My SM, My Cuisine"

A joint project of SM Supermalls, the Philippine Star and SM Homeworld, "My City, My SM, My Cuisine" celebrated the flavors of Philippine regional cuisine through a culinary contest featuring two signature recipes from 14 cities where SM Malls are located. This culinary roadshow kicked off in April 2012 at SM City Sta. Rosa. The cookfest was also held in SM Malls in Lucena, Cavite, Batangas, Cagayan De Oro, Naga, Marilao, Davao, Bacolod, Cebu, Iloilo and Clark.

Sinulog Festival at SM City Cebu

SM City Cebu staged spectacular fireworks shows in celebration of the Sinulog Festival in January 2012. In cooperation with Pyroworks International and the Sinulog Foundation, SM City Cebu staged the 4th Sinulog Pyrofest competition fronting The Northwing building. Eight competitors from all over the country participated in the Pyrofest wherein they were judged according to the fireworks' beauty, style, timing and audience impact.

Christkindlmarket at the Mall of Asia

For the first time in Asia, the European Chamber of Commerce of the Philippines (ECCP) held the Christkindlmarket in Manila. From December 3-9, 2012, the SM Mall of Asia Ice Skating Rink was transformed into a Christmas village to replicate the original event in Nuremberg, Germany where this tradition of celebrating Christmas first started in 1545. Every year, almost 2 million people from all over the world visit the Christkindlmarket in Nuremberg, Germany. Through Christkindlmarket Manila, Filipinos were given a chance to experience this European Christmas tradition and at the same time buy Christmas items from the various stalls. They were also treated to live performances from choirs and bands.

SM Joins Earth Hour 2012

SM Supermalls once again actively participated in the Earth Hour which happened on March 31, 2012. Earth Hour is a global initiative where individuals, businesses, governments and communities are invited to turn off their lights for one hour to show support for the environment. At exactly 8:30pm, all SM Malls nationwide simultaneously turned off their lights. This undertaking was likewise supported by local government officials, environment advocates, mall tenants, suppliers and employees. Earth Hour was also marked by performances by acclaimed singers and dance groups to foster awareness of the need to respond to the global issue of climate change.

Little Miss Masskara at SM City Bacolod

SM City Bacolod celebrated the Masskara Festival in October 2012 with exciting events and festivities highlighted by the search for "Little Miss Masskara". Twelve talented girls aged four to six years old competed in the Little Miss MassKara pageant held at SM City Bacolod's Event Center. The candidates were chosen from more than 50 girls who showcased their talents in singing, dancing, acting and modeling. A variety show featuring popular celebrities was also staged along Rizal Street between the North and South Buildings of SM City Bacolod.

Kadayawan Festival at SM City Davao

In August, SM City Davao was the venue of some of Kadayawan Festival's official events, including Sayaw Mindanao, the Mindanao Travel and Tours Expo and Moda Mindanao, a fashion show featuring the designs and collections of Mindanao's top fashion designers. SM City Davao likewise served as the venue of the annual Agri-Trade Fair which showcased 490 exhibitors. The Agri-Trade Fair is one of the most anticipated events of the Kadayawan festival as it displays the best agricultural products from Davao such as fruit seedlings and ornamental flowers, among others.

PHILIPPINE MALLS

NCR
LUZON
VISAYAS
MINDANAO

SM Malls - Philippines

City/Province	# of Malls	GFA	% of GFA
Total NCR	16	2,756,208	49%
Total Luzon	22	1,828,077	33%
Total Visayas	4	558,798	10%
Total Mindanao	4	455,649	8%
Philippines	46	5,598,731	100%

MALL TRIVIA - PHILIPPINES

2012 MALL OPENINGS - PHILIPPINES

It was another banner year in 2012 for SM Prime, which successfully launched six new malls.

The company reaffirmed its dominance in Philippine mall operations by opening five new malls namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, and SM Lanang Premier.

This brings the total number of SM Prime's Philippine malls to 46, with a total gross floor area (GFA) of 5.6 million square meters (sqm). In China, SM Prime now has five operating malls with a total GFA of 0.8 million sqm.

With a strong presence all over the country, SM Prime truly caters to the need of every customer by offering a one-stop shopping, dining, and entertainment experience. SM Supermalls continue to offer new concepts which now include health and wellness, mall events such as concerts and shows, and some government services such as licensing and passport applications and renewals.

SM Prime is scheduled to open two new malls and expand an existing mall in 2013. This is expected to add 390,000 sqm of GFA to its chain of shopping centers in the Philippines. By the end of 2013, SM Prime will have 48 malls all over the country, with a total GFA of approximately 6.0 million sqm.

SM Prime expanded its geographical footprint in the provinces of Luzon, Visayas, and Mindanao in 2012. These sites have become an attractive domain for expansion given the rapid urbanization in these cities brought about by the local government efforts to boost their economies. Purchasing power has also significantly improved on the back of rising disposable incomes and the steady growth in OFW remittances. In the midst of all the positive developments taking place in the provincial areas, SM Prime envisions itself to be a catalyst for further growth as it partners with these cities to promote economic progress.

SM Prime President Mr. Hans T. Sy said, "Our mall openings in 2012 were geared towards the provincial areas. This reflects our continued confidence in the growth potential of each of these cities given a combination of various positive elements – a dynamic population, flourishing business landscape and vibrant prospects for tourism. Our new malls will meet the underserved retail demand and aspirations of the residents in these areas."

In China, SM Prime is taking an organic approach in second and third tier cities which are fast emerging and have market profiles comparable to those in the Philippines. SM Prime puts premium on brand building and strong tenant relationships, the same factors that were significantly contributed to its success story in the Philippines.

Its Third in Pampanga
SM City San Fernando

SM Prime opened its 44th shopping mall in the country, SM City San Fernando on July 20, 2012. The mall is located at the Downtown Heritage District, Barangay. Sto. Rosario, San Fernando, Pampanga. It has a gross floor area (GFA) of 42,625 square meters (sqm). It is SM Prime's third mall in the province, after SM City Pampanga and SM City Clark which opened in November 2000 and May 2006, respectively. SM City San Fernando's amenities include three cinemas, with a combined seating capacity of 1,068 and parking slots for over 300 vehicles.

SM City San Fernando had an occupancy rate of 97% as of end 2012. The seven-storey shopping mall's anchor tenants are SM Department Store and SM Supermarket. It also has BDO, Watsons, SM Appliance Center, Ace Hardware, National Bookstore, Bench, and Penshoppe, among others.

San Fernando is the capital city of Pampanga. It is strategically located at the heart of Central Luzon, making it the center of commerce and trade of the region. The city is popularly known for its giant lanterns and is also dubbed as the "Christmas Capital of the Philippines." Major industries include agriculture, manufacturing, food processing, and handicraft making.

SM Prime forays into
Zambales

SM Prime opened on February 10, 2012 its 42nd mall in the Philippines and its very first in the province of Zambales. The new mall has a gross floor area (GFA) of 46,869 square meters (sqm) and occupies 9,259 sqm of land. SM City Olongapo's major amenities consist of an al fresco dining area, which offers a view of Olongapo's mountain landscape; three cinemas, with a combined seating capacity of 758; and parking slots for over 300 vehicles.

SM City Olongapo now enjoys an occupancy rate of 100%. Its major tenants include SM Department Store and SM Supermarket. Other mall tenants include BDO, Watsons, Ace Hardware, National Bookstore, Jollibee, and KFC, among others.

Olongapo City is the most urbanized area in Zambales. It sits right next to the Subic Bay Freeport Zone, a former United States naval base that is now a major industrial, tourism, and logistics hub. Olongapo is known for its innovative urban management methods and has been recognized by international organizations such as the UNESCO (United Nations Educational, Scientific, and Cultural Organization).

SM Prime Opens Second Mall in Cebu with SM City Consolacion

On June 1, 2012, SM Prime opened its 43rd shopping mall in the country, SM City Consolacion. It has a gross floor area (GFA) of 106,857 square meters (sqm) and is located along the Cebu North Road, Barangay Lamac, Consolacion, Cebu. It is SM Prime's second mall in the province, after SM City Cebu, which opened in November 1993.

As of end 2012, SM City Consolacion had an occupancy rate of 92%. Its anchor tenants are SM Department Store and SM Supermarket. Quick service restaurants located in the mall are Jollibee, Chowking, Greenwich, Red Ribbon, Pizza Hut, KFC, and Mang Inasal. Food restaurants serving local Cebuano cuisine such as Chika-an Sa Cebu and Jonie's Chicken are likewise tenants of SM City Consolacion. Other mall tenants include BDO, Watsons, Ace Hardware, National Bookstore, Ideal Vision, Bench, and Penshoppe, among others. SM City Consolacion's amenities include a Cyberzone; a food court that comfortably seats up to 668 diners; four cinemas, with a combined seating capacity of 1,488; and parking slots for over 700 vehicles.

Consolacion is an emerging residential municipality in the province of Cebu. It is part of the Cebu Metropolitan Area (Metro Cebu), which is the second international gateway and the second largest urban area in the Philippines. Consolacion's major industries are furniture making, garments, manufacturing, shipbuilding, and ship repair.

In line with SM Prime's expansion plans for Cebu is the construction of the Php4.5 billion shopping mall in the reclaimed South Road Properties (SRP). The mall is expected to open in the third quarter of 2014 and will have a gross floor area of 400,000 square meters, making it Cebu's biggest mall and fourth among SM malls. It is part of the 30-hectare mixed-use development project of SM Prime in Cebu called SM Seaside City. This is proof of SM's vision for the growth of Cebu City and the positive impact that its malls have on the lives of Cebuanos.

SM Prime Expands Down South with SM City General Santos

On August 10, 2012, SM Prime launched SM City General Santos, its 45th shopping mall in the country. The mall has a gross floor area (GFA) of 95,764 square meters (sqm) and is located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. It is SM Prime's first mall in the province of South Cotabato. SM City General Santos' amenities include a food court; four cinemas, with a combined seating capacity of 1,400; and parking slots for 1,500 vehicles.

SM City General Santos is 85% occupied by various tenants. The three-level shopping mall's anchor tenants are SM Department Store and SM Supermarket. Other mall tenants include Watsons, Ace Hardware, Toy Kingdom, Breadtalk, Congo Grille, Classic Savory, Max's, Tong Yang, Bench, and Gymboree among others.

General Santos or more popularly known as GenSan, is one of the most populous urban centers in the country with a population of approximately 900,000. It is the largest producer of sashimi-grade tuna in the Philippines, earning the title "Tuna Capital of the Philippines". It is also the hometown of boxing champion Manny Pacquiao. General Santos City is the center of commerce, trade, and logistics of Region XII, also known as Soccsksargen, an acronym that stands for South Cotabato, Cotabato, Sultan Kudarat, Sarangani and General Santos City.

SM Prime Goes Upscale in Davao: SM Lanang Premier

SM Prime opened its 46th shopping mall in the country, SM Lanang Premier, on September 28, 2012. The brand new mall, with a gross floor area (GFA) of 144,000 square meters (sqm) is located at J.P. Laurel Avenue, Brgy. Lanang, Davao City. It is SM Prime's second mall in the province, after SM City Davao, which opened in November 2001. SM Lanang Premier's amenities include five cinemas and an IMAX Theater, with a combined seating capacity of 2,200; a bowling center; a Science Discovery Center; and parking slots for over 1,500 vehicles.

SM Lanang Premier is already 91% occupied by various tenants. The mall's facade is accentuated by the folded building concept, inspired by the traditional Japanese art of folding paper known as Origami. The shopping mall's anchor tenants are SM Department Store and SM Supermarket. It will also house the SMX Davao Convention Center. Other mall tenants are Watsons, Ace Hardware, Kultura, Forever 21, Centerstage, Vikings, Cha Time, Mesa, Jollibee and KFC.

Incorporating environmentally sustainable technology in its design and construction, SM Lanang Premier features a Skygarden with water fountains, art installations, and landscaping. The mall is also designed with skylights and will use LED to ensure efficient energy consumption.

Lanang is a highly urbanized commercial center in the province of Davao. It is home to one of the cultural heritage sites in the city, the Davao Museum. Davao is one of the country's major source of Philippine export products such as bananas, tuna, finished wood products, pineapples, and rubber.

SM Lanang Premier completes the series of expansions of SM Prime in the Philippines for 2012, bringing the total number of SM Prime malls to 46 all over the country with a combined GFA of 5.6 million sqm.

FEATURE

SM Southmall Joins List of SM Prime's Premier Malls

In its commitment to continue revolutionizing the mall experience, SM Prime formally re-launched SM Southmall in November 2012, unveiling its new look and sophisticated feel. SM Southmall, which is located in Alabang-Zapote Road, Las Piñas City, is SM Prime's fifth mall, originally built in 1995. It has since been transformed into one of SM Prime's increasing list of premier malls, with a GFA of 189,677 sqm catering to a growing upscale market. The mall re-launch, entitled "A New Direction" was held at the Food Street, an al fresco dining area that is surrounded by lush greenery and an illuminated LED fountain. Special performances by ABS-CBN's Philharmonic orchestra under the baton of Gerard Salonga, the UP Singing Ambassadors, and artist Gian Magdangal entertained the crowd throughout the evening.

SM Prime President Mr. Hans T. Sy said, "The relaunch of SM Southmall is a welcome addition to the premier malls of SM Prime. This goes to show that we are constantly upgrading our malls to cater to a market segment whose lifestyle has become more aspirational. We aim to provide an integrated shopping, dining, and entertainment experience and take it to a whole new level as we cater to a growing upscale market here in the south."

SM Southmall's redevelopment project started in 2010 with the help of retail architecture expert, Edge Interior Design of Australia. A highlight in the mall's interior is the architectural innovation High Bay, a high ceiling section that showcases international brands such as 158 Designer's Blvd, Nine West, Aerosoles, Aldo, Charles & Keith, La Senza, and Face Shop.

SM Southmall is also home to the only IMAX Theater in the South Metro, with a 440 seating capacity and SM Ice Skating Rink, one of only two SM ice skating rinks in the Philippines. It also boasts of the Food Street, a 250-meter restaurant strip that is home to various dining concepts such as Black Canyon Coffee, Tous Les Jours, Holly's Coffee, Sambokojin, Tokyo Café, Racks, Majaraja, and Café Mary Grace.

The rest of SM Southmall's retail spaces have also been re-zoned for an enjoyable, accessible and convenient shopping experience for all mall-goers. SM Department Store and SM Supermarket are situated at the prime area of the High Bay. SM Southmall will soon offer SM Bowling Center, Mall Concierge, Golf Cart Service, LED Carpark Finder, Valet Service, Driver's Lounge, Transport Service Expansion, and enhanced PWD facilities.

SM Southmall will cater to an upscale group of customers given the mall's proximity to affluent villages, residential, and commercial projects where expatriate communities are also growing in Alabang, Las Piñas, Parañaque, and nearby towns of Laguna and Cavite.

With the addition of new services and features for the people living in the south to enjoy, SM Southmall definitely defines a new direction for uptown shopping and leisure experience.

2013 PHILIPPINE MALL EXPANSION PROGRAM

A Preview of Upcoming SM Malls

SM Prime looks forward to 2013 as it is set to launch new shopping centers and complete a major expansion of SM Megamall.

	LOCATION	GFA IN SQM
New Malls	SM Aura	234,892
	SM Cauayan	55,000
Expansion	SM Megamall Building D	101,000

SM Aura Premier

Starting off SM Prime's expansion program this year is SM Aura Premier which is set to open in the second quarter of 2013. Located at Bonifacio Global City in Taguig, SM Aura Premier consists of a 187,000 square meter (sqm) mall and a 48,000 sqm office tower.

SM Aura Premier is envisioned to be a mixed use development while incorporating a civic center with five retail/trade hall levels and an office tower.

The development includes a multi-level green roof, which, apart from its environmental advantages, also provides a much needed green and communal space in Metro Manila's dense cityscape. It will contain al fresco bars & restaurants, sculpture and botanical gardens, a 1,100-seat performance hall and a 250-seat chapel named after Filipino saint, Pedro Calungsod.

Aside from shops and F&B outlets, the mall will also include as its anchor tenants SM Department Store and SM Supermarket, Trade Hall, Foodcourt, two regular Cinemas, two Director's Club facilities and an IMAX Theater.

Designed by Miami-based architectural firm, Arquitectonica, the structure will be a basic "dumbbell" arrangement determined by the narrow site, with the main entry at the north corner, and the office tower located at the southern end. The main vehicular drop-off is provided on the western side, with taxi stations on the first basement, accessed from the lower, eastern road.

SM Aura Premier is SM Prime's first foray into the US Green Building Council Leadership in Energy and Environmental

Design. It will be the Philippines' first civic center that will be certified Gold by LEED standards. The project adheres to a high standard of environmental responsibility. Pollution and waste are minimized throughout building construction and operation through environmental management and monitoring. Building occupants will have convenient access to integrated parking, public transportation, bicycle facilities, and pedestrian paths. A large green roof will reduce the structure's heat island effect, as well as provide occupants with landscaped recreational areas with native plant species. All waste water will be treated on site and reused for non-potable purposes. A third of the construction materials budget is allocated for building products that are either locally sourced or have high recycled content.

The building will maintain superior indoor environmental quality through enhanced ventilation and the use of low emitting materials. Moreover, energy and water use will be reduced by as much as 19% and 30% respectively compared with conventional buildings through a high performance building envelope and efficient equipment and fixtures. With superior building performance and a host of sustainable features, SM Aura Premier will definitely raise the bar on environmentally conscious development in the Philippines.

With its revolutionary architecture and world-class design, SM Aura Premier is poised to redefine the retail landscape with its array of shopping, dining, entertainment, and lifestyle selections. It will showcase the most popular among local and international brands, paving the way for SM Aura Premier to be a top destination for mall-goers.

SM City Cauayan: first open strip mall

Joining the pipeline of SM malls to be unveiled in 2013 is SM City Cauayan, the company's first open-type strip mall. Located along the National Highway of San Fermin in Cauayan City, Isabela, the mall will offer an estimated gross floor area (GFA) of 55,000 square meters (sqm). It will be the first SM Supermall in the whole of Region 2, known as Cagayan Valley, which has a total population of 123,000.

As we move further up north and down south of Luzon, Cauayan City cannot be ignored as a potential site for an SM Mall. For one, Cauayan is one of the few cities in Region II that serves as an industrial and commercial hub. Secondly, it is a regional crossroad given its proximity to eleven Isabela municipalities making it accessible to over half a million people.

Cauayan is the Agro-Industrial Capital of Cagayan Valley and the Central Business District of Region II where rice and corn are the main products. Millions of people residing in this region are either directly engaged in farming, food processing, and other agri-businesses yet the number of shopping centers have remained limited and scattered. This makes it an ideal starting point in establishing SM Prime's presence up north as it caters to unserved markets.

The entry into Cauayan reflects SM Prime's optimism in the growth potential of provincial areas on the back of a robust Philippine economy. Encouraged by the positive results delivered by its provincial mall openings, SM Prime seeks to expand in various regions outside Metro Manila where it is a catalyst for development.

Designed by EDGE Interior Designers and Arquitectonica, the mall will feature a vibrant landscape that incorporates nature into the design. Ceiling fans will be used to ventilate the arcaded walkways and storefront hallways, a green and cost-effective approach compared with the typical use of air conditioners.

Its exterior features include warmly colored panels in random pattern to give a festive mood which will be combined with glass and steel finishes for a modern touch.

Its carpark building will have LED parking locators to make it convenient for customers while at the same time minimizing the fuel consumption.

SM Megamall Set to Become SM Prime's Largest Mall

Opened in June 1991, SM Megamall is the third mall of SM Prime with an original gross floor area (GFA) of 331,680 square meters. Having since undergone two expansion projects, SM Megamall had 405,435 sqm of GFA at the end of 2012. But all these will once again change. The construction of SM Megamall Building D will add another 101,000 sqm, easily making it the largest SM Mall, with a total GFA of 506,435 sqm. The development is designed to combine efficient functionality, commercial and environmental sustainability, as well as a memorable architectural identity.

SM Supermalls Vice President for operations Steven Tan said, "Today's growing global awareness is matched by the advent of new, big format global brands. SM Megamall, with its central location and accessibility, is in a perfect position to meet the evolving tastes and new demands of the Filipino shopper."

A host of global fashion brands and international dining trends will open up to shoppers, further intensifying the thrill of endless discoveries at SM Megamall. The expansion of SM Megamall indeed reflects SM Prime's commitment to provide a one-stop shopping, dining and entertainment complex to the public.

The building will be a semi-circular drum which runs five storeys high and will connect to the main mall. A large wedge-shaped atrium penetrates the drum, allowing for a central multi-purpose space intended to host performances, exhibitions, fairs, and product launches. The said atrium provides daylighting for a natural interior feel which also doubles as a huge display window towards EDSA.

The opening of SM Megamall Building D will provide premium leisure offerings to mall-goers in the Ortigas and Pasig circuit as it will house an IMAX theatre and an Olympic-sized ice-skating rink which will be located on the fifth floor. A bowling alley will be located at the fourth floor. Restaurants, coffee shops, and bars will be located on the bridges behind the big atrium window, which will be visible from EDSA and the MRT line. Moreover, car, taxi and bus drop-offs will also be provided in front of the building, giving good public access to the new retail block.

The exterior design of the mall will take its cue from the barcode blocks of the existing mall. Both the drum and the carpark wedge will be clad in white and silver metal barcode stripes, all running vertically. The composition of the new building should be dramatic enough to create a new and exciting presence along EDSA, while giving Megamall a fresh, iconic identity.

SPECIAL FEATURE

A UNIQue Experience

Long queue on opening day to enter UNIQLO at Mall of Asia

UNIQLO opens at Mall of Asia
From Left to Right: Ms. Geraldine Sia, General Manager of Fast Retailing Phils, Inc.; Mr. Hans Sy, President of SM Prime Holdings, Inc.; Mr. Naoki Otoma, CEO of UNIQLO Southeast Asia; Mayor Antonino Calixto of Pasay City; Amb. Toshinao Urabe, Embassy of Japan; Ms. Teresita Sy-Coson, Vice Chairperson of SM Investments Corporation; Mr. Katsumi Kubota, COO of Fast Retailing Phils., Inc.; Victor Velasco (one of the first customers of UNIQLO Mall of Asia) and Nikki Gil, UNIQLO brand ambassador

When No. 1 Japanese clothing label UNIQLO debuted in Manila on June 15, 2012, it was to a crowd of approximately 3,000 eager patrons queuing patiently at the store's main entrance.

Throngs of shoppers were drawn to UNIQLO's grand opening and hard-to-pass-up limited offer that slashed prices for popular clothing lines – graphic tees, polo shirts and jeans – by as much as 25 to 40%. But beyond this, UNIQLO already had a strong following in the Philippines, especially among those who are not strangers to the store's philosophy – "MADE for ALL" – which offers to clothe anyone regardless of age, gender, occupation and ethnicity. And just after five months, UNIQLO boldly opened its second store at SM City North EDSA in November 2012 after the success of the flagship store's launch.

With the opening of its second store in the country, UNIQLO is right on track to meet its target of opening a total of 50 stores in the Philippines by the end of 2015 that will bring its highly functional and outstanding quality yet affordable clothing to more Filipinos in other areas.

The entry of UNIQLO demonstrates the ability of SM in bringing successful, fast-growing global brands to the country through its Supermalls.

Equally stirring as much excitement was the entry of FOREVER 21 in 2010 at SM Megamall. Guests were treated to a fashion show during FOREVER 21's VIP launch. Exclusive perks such as discounts and special edition FOREVER 21 merchandise were given to customers during the opening weekend. FOREVER 21 is one of America's most popular clothing chains that helped pioneer fast fashion by offering trendy clothing and accessories for young women, men, teens and kids at affordable prices. Its sub-brands include Heritage 1981, 21Men, Forever 21 Plus Size and Love 21 Contemporary. Today, FOREVER 21 operates five more branches in SM Makati, SM City Cebu, SM City North EDSA, SM Mall of Asia and SM Lanang Premier in Davao. Soon to open is another store at SM's posh Aura Premier mall in Taguig.

With increasing consumer appetite for aspirational products driven by rising disposable incomes and changing lifestyles, as well as significant foot traffic flowing into SM malls, it comes as no surprise that brands like UNIQLO and FOREVER 21 have launched aggressive expansion strategies in the Philippine market. Moreover, the entry of UNIQLO and FOREVER 21 has also brought in a younger, more upscale market into SM malls.

SM's strong partnerships with global brand suppliers continue to bring new and exciting brands to the Philippines. Joining SM's formidable mall roster of global brands in 2012 were apparel and shoe shops Cotton On, Onitsuka, Sperry; cosmetic brands Etude, Bobbi Brown and Clinique; and casual dining restaurants Bulgogi Brothers, Boon Tong Kee and Lugang Café. For 2013, SM is expected to bring in more exciting brands as it opens fresh mall concepts.

SM's offering of innovative retail concepts reflects its solid commitment to provide its customers with a one-stop destination that caters to diverse needs and preferences. As it ushers in more world-class retail brands, SM will continue to ensure that its customers, regardless of any known demographic, enjoy a wide selection of products and services that will ultimately take the shopping, dining and entertainment experience to a unique and entirely new level.

SPECIAL FEATURE

Mr. Ramon Tan, President of Savory Fastfood, Inc.

A Classic Savory Chicken Story

The fried chicken Filipinos came to love through generations originated in a *panciteria* that was put up right after the second World War. That small eatery in Quiapo initially served only lomi mostly to its Chinese clientele, before introducing fried chicken in its menu. The tasty, juicy and tender chicken recipe helped expand the eatery's customer base to attract Filipino patrons, giving birth to what is then called Savory Chicken House managed by the Ting brothers.

The restaurant continued to introduce more recipes and added a few more branches through the years. After about three decades, and with competition getting more aggressive, Savory preferred to stay "small" with just a few branches here and there. Destiny, however, had other plans for this restaurant when SM Investments Corporation's Vice Chairman, Tessie Sy-Coson had a chance encounter with Ramon Tan, who is a direct descendant of one of the Ting brothers.

"It was Mrs. Coson who convinced us to relaunch Savory in SM," reveals Tan. "She told me that we should revive the brand while people still recognize us. A great idea, of course, considering that so many people go to SM every single day. So I told the others about it, and here we are – growing with perhaps the country's fastest growing mall chain."

It proved to be a prolific move indeed. The restaurant relaunched a trademarked brand in 2007 as Classic Savory in SM Mall of Asia, followed two months later by another branch in SM Hypermarket in Pasig. Today, the new Classic Savory has 37 SM branches and 21 others outside the mall – that's more than all SM branches nationwide combined! Tan now co-manages the restaurant chain with Kristoferson Ting, a third generation cousin of the family that started it all.

"Since 2007, we have been constantly expanding by about 10 to 12 branches a year. Hans Sy was very convincing and motivating to businesses like us. It also helps that SM's head for leasing, Daisy Chua, gives very sensible recommendations," Tan continues.

Perhaps it was the fact that Savory is one of the Sy family's all-time favorite restaurants that helped Tan decide to take SM's offer to relaunch and grow with them. "You feel the sincerity of people who actually enjoy your food. I knew they were not just offering opportunities for mere profits, but because they believe in our products...and candor is rare in business," Tan adds.

Classic Savory now employs more than a thousand staff and crew, or about 20 employees per branch. The restaurant has retained its classic warm feel, but with modern touches that appeal to today's generation. The Classic Savory today offers delivery, bulk orders and catering services.

MALL EVENTS - CHINA

SM City Xiamen Celebrates Its 10th Anniversary

SM City Xiamen celebrated its 10th Anniversary which coincided with the mall's Christmas tree-lighting ceremony on December 1, 2012. The event was attended by SM Little Star winner and also featured a fashion show and live musical numbers to entertain shoppers. It was a way for SM City Xiamen to thank its customers for the support they have given to the mall.

Fashion Week at SM Lifestyle Center in Xiamen

A total of 15 fashion brands participated in the Spring/Summer Fashion Week held on April 29 to May 5, 2012 at SM Lifestyle Center where they featured their latest creations. And on October 27 to November 2, 2012, SM Lifestyle Center staged another grand fashion show, the Autumn/Winter Fashion Week. This much anticipated fashion event brought beauty and glamour to SM Lifestyle Center with no less than Supermodel of Asia Ms. Stella Song gracing the show.

Kids Gymnastics at SM City Chengdu

SM City Chengdu, in cooperation with The Next Generation Working Committee of Sichuan and the Chengdu Sport University organized the Children's Gymnastics Competition held on June 9 and 10, 2012 at the activity center of SM City Chengdu. A total of 20 schools participated in the two-day competition with 1,130 children displaying their gymnastic skills.

SM City Suzhou Square Dancing

To strengthen its ties with communities around the mall, SM City Suzhou held a Square Dancing Competition wherein they invited the communities residing near the mall to participate. The opening ceremony was held on Aug.12, 2012. As one of the most popular exercises in Suzhou, the contest attracted a largest number of participants. SM City Suzhou likewise received support from the Sports Bureau of China's Wuzhong District.

Cultural Festival at SM City Jinjiang

The 8th Jinjiang Youth Cultural Festival was held in SM City Jinjiang in partnership with the Youth Creative Market, the Jinjiang Municipal Party Committee and the Government of Jinjiang. The event showcased creative products and likewise served as a venue to exchange creative concepts and novel ideas. Participating in this event were associations from 22 middle schools in Jinjiang.

CHINA MALLS

SM Malls - China			
Region	**# of Malls**	**GFA (in sqm)**	**% of GFA**
Total Xiamen	1	238,125	30%
Jinjiang	1	167,830	21%
Chengdu	1	166,665	21%
Suzhou	1	72,552	9%
Chongqing	1	149,076	19%
Total	5	794,248	100%

MALL TRIVIA - CHINA

2012 MALL OPENING - CHINA

SM China Opens Fifth Mall in China's Largest City

The mood was nothing short of festive when SM Prime Holdings, Inc. unveiled SM City in Chongqing, Southwest China on December 14, 2012. It is the company's fifth shopping mall in China, after SM City Xiamen, SM City Jinjiang, SM City Chengdu, and SM City Suzhou.

Mall-goers rushed in as soon as the doors were opened and continued to shop throughout the day to enjoy the big discounts and amazing promos of the mall and its tenants. Different activities such as band performances and fashion shows at the main activity center also added to the excitement. Shoppers also marveled at the mall's displays and exhibits such as Porsche, Ferrari, and Brabus cars inside and outside the mall.

A ribbon cutting ceremony was held in front of the mall which was headed by Mr. Hans T. Sy and other SM executives from Manila, and graced by no less than the City Mayor Huang Yulin, Vice Mayor Wang Guangrong, and other high ranking officials from different sectors of the government. It was also attended by other city offices' heads, store owners, and several media personalities.

SM City Chongqing has a gross floor area of 149,080 square meters. As of end-2012, it had an occupancy rate of 85%. With its strategic location and transport accessibility, the mall will serve a population of approximately 30 million residents in the city of Chongqing offering a mix of local and international stores. The shopping mall's major tenants are Vanguard Supermarket, SM Department Store and Wanda Cinema. Junior tenants include Vero Moda, Only, Jack & Jones, Starbucks, Watsons, and Kidswant.

SM City Chongqing is a one building structure with five levels. Its exterior design features "fish scale" panels accentuated by lightings. The mall's interior has slanted glass panels at the lobby entrance which are designed to give customers a grand welcome.

Chongqing, also known as the "Mountain City," is the biggest and most heavily populated city that is directly under the Chinese Central Government.

It has several economic and technological development zones. Chongqing is also a manufacturing and trading hub and is home to major industries that include transport, communication, electronic equipment, non-metal mineral products, chemicals, and food processing.

According to the Chongqing Statistics Bureau, more than $10 billion worth of foreign investments were made in the city in 2011, a 66 percent rise from 2010 and almost one-fifteenth of the national total. Moreover, about 200 of the world's top 500 enterprises have opened outlets in Chongqing.

The strategic entry into the booming city of Chongqing is another milestone in SM Prime's operations in China. SM could not have entered Chongqing at a better time as the city finds itself turning into a top investment destination.

SM City Chongqing is the sixth SM mall to be opened by SM Prime in 2012 after SM City Olongapo in Zambales, SM City Consolacion in Cebu, SM City San Fernando in Pampanga, SM City General Santos in South Cotabato and SM Lanang Premier in Davao.

Opened only in December 2012, SM Chongqing has been recognized as one of China's Most Promising Malls in the Golden Mall Awards of Mall China, a nationwide competition for malls launched in 2012. Only 15 projects of 300 newly opened malls in China in 2012 garnered such distinction. SM Chongqing gains this merit along with Chongqing Star Light Plaza, Chengdu Mixcity, Chongqing Longfor Paradise, Tianjin Joy City, to name a few.

As of end-2012, SM Prime has a total of five malls in China, with a combined GFA of 794,252 sqm.

2014 CHINA MALL EXPANSION PROGRAM

SM Making a Mark at the All-Important Tianjin Binhai New Area

The opening of SM City Tianjin in 2014 will represent a watershed moment for SM Prime's operations in China. With a GFA of 540,000 sqm, SM City Tianjin will be the largest mall in SM Prime's China portfolio. Not only is the mall gigantic, it is also located in an area where it aims to be one of the catalysts in a central government project called Tianjin Binhai New Area (TBNA).

TBNA is China's latest economic development zone, in the northern Chinese city of Tianjin which is in close proximity to Beijing. It is the third economic zone designated by China's central government to serve as an economic gateway to the country, following the success of the Shenzhen and the Shanghai Pudong special economic zones.

TBNA is an important gateway having a well-established sea-air-land transportation system, which serves the Circum-Bohai Region and leads to North China, Northeast China, and Northwest China. It is located in the juncture of the Beijing-Tianjin City Belt and the Circum-Bohai City Belt. Since it lies in the center of Northeast Asia, it is the nearest point of departure of the Eurasian Continental Bridge. The Tianjin Port located in the TBNA is the designated port for goods in transit to the Republic of Mongolia based on an agreement between China and Mongolia.

TBNA has 700 square kilometers (270 sq mi) of water and wetlands and a further 1,200 km^2 (460 sq mi) of wasteland that is being re-developed into saline land. Its resources are about 100 million tons in proven oil reserves, and 193.7 billion cubic meters (6.84 trillion cubic feet) of natural gas.

Currently, TBNA serves as a major business hub where over 250 of the Fortune 500 companies have set up branch offices. Those with significant presence in the area are Siemens, Motorola, Toyota, Citibank, HSBC and Airbus, which has set up an assembly line for its A320 jetliner in the Area – its first such facility outside of Europe.

The major industries supported by TBNA include

1. Electronics & IT
2. Automobile and Equipment manufacturing
3. Oil and Marine Chemical Industry,
4. Modern Metallurgy
5. GreenFood
6. Bio-pharmaceuticals
7. New Materials and New Energy

TBNA's other emerging industries include Aerospace, Shipbuilding, Financial Services, Modern Logistics, and Service Outsourcing. It is also a site of such centers of innovation as the China Tianhe 1 Supercomputing Center, the China 3D Movie Center, and the National Digital Publishing Base.

Since 2007, Tianjin has attracted 120 major industrial projects, with an average investment amount of CNY4.8 billion or US$770.4 million. In addition, China has committed to invest CNY1.5 trillion or USD$240.8 billion in the new district.

The infrastructure projects built in the Area include an international airport, the largest cargo airport in northern China; as well as the Tianjin Port, the country's fifth-largest seaport. There is also a high-speed train connecting Tianjin to Beijing, with the journey taking only 27 minutes.

The Binhai New Area is presently experiencing a construction boom, with a host of commercial and residential buildings rising in the district, and many more construction projects underway. The resident population of Tianjin is projected to reach 1.4 million. By 2015, Chinese officials predict that the Binhai New Area's gross domestic product (GDP) will reach US$1.0 trillion, and by 2020, US$2.0 trillion.

"When constructing new malls," SM Prime Executive Vice President and Chief Financial Officer Jeffrey C. Lim says, "we look at a number of key factors, including location, accessibility, demographics, and the buying power of consumers in the area and its surroundings."

TBNA is indeed a more than ideal location for an SM mall. It promises to take SM to a whole new level of visibility in China, and will provide greater challenges for SM to live up to its vision of becoming a world-class mall developer.

SM City Zibo

In 2014, SM Prime will launch a new shopping mall in the city of Zibo, making it the company's seventh mall in China, called SM City Zibo. The mall will offer an estimated gross floor area (GFA) of 154,000 square meters (sqm).

Zibo, located at the heart of Shandong Province has a population of four million and is bordered by tourist cities Jinan and Qingdao. It governs five districts – Zhangdian, Zichuan, Boshan, Linzi, Zhoucun and three counties – Huantai, Gaoqin, Yiyuan.

Zibo is an important trade center and distribution center of commodities in Shandong province. Its main industries are chemical, pharmaceutical, machinery, garment, ceramics, metallurgy, electric power and agriculture. Zibo is an important chemical industry base of China that is home to approximately 1,400 chemical enterprises. It also takes pride in being a huge exporter of ceramics to over 80 countries and regions.

Moreover, Zibo is a city known for its historical sites and rich culture whose tourist spots include Great Wall of Ancient Qi State, the Museum of Ancient Chariots and Horses, the Pit for Sacrificial Horses of the Eastern Zhou Dynasty.

SM Prime's Executive Vice-President and CFO Jeffrey C. Lim said, "We aim to provide the residents of Zibo a one-stop shopping destination that will cater to their needs and aspirations as well as offer quality space to retailers looking to expand in this emerging city."

SM City Zibo is a one-building structure with five levels whose design is largely inspired by its surroundings. The structure is defined by the parameters of the city streets and the nearby Xiao Fu river, as it takes on a fluid, free-flowing shape. The interior will have good day-lighting via skylights, as well as panoramic views towards the exterior of each arcade. The interior design is modern, and transparent, providing easy orientation for the shoppers and maximum exposure for the shops. The exterior corners of the mall are rounded off to give a softer, less massive appearance, as if the mall were a rock-formation which has been eroded by the waters of the river over time. This is further emphasized by the horizontal strata of differently shaded planks which form the façade. These planks are in shades of white and light blue, giving the mall a cool, modern appearance. It also provides a metaphorical reference to the flowing river, whose appearance is reflected in the blue ribbon of the angling facade.

When completed in 2014, SM City Zibo will house well-known international and local fashion brands, a supermarket, department store, foodcourt, and cinemas. It will also have an al fresco dining area overlooking the Xiao Fu river.

SUSTAINABILITY REPORT

SM Executives and environmental business partners congratulate the winners of the SM Eco Bag Design Competition, at the SM Eco Bag 2012 Launch

SM Cares Program

Other than generating employment and economic activity, SM Prime, through the SM Cares Program, ensures the company provides extensive social value. Extending service beyond the company's doors, SM Cares empowers communities and safeguards the environment throughout the nation.

With the guidance of SM Prime Holdings Inc. President, Mr. Hans T. Sy, the dedicated women and men of SM Cares operate and enhance the company's social and environmental strategies throughout the nation. To provide focus and direction, SM Cares is further divided into committees with distinct goals and programs. While SM Prime operates corporate social responsibility efforts outside of the scope of these committees, the SM Cares Programs include committees on:

- The Environment
- Persons with Disabilities
- The Youth
- Women and Breastfeeding Mothers
- Overseas Filipino Workers
- The Elderly

SM Cares for the Environment Program

The SM Cares for the Environment Program enhances SM Prime's operational sustainability and environmentally focused corporate social responsibility programs. Throughout the company's history, SM Prime has employed initiatives towards operational efficiency and environmental awareness. Today, SM Prime has expanded its environmental strategies in pursuit of the highest attainable level of positive impact. Through a combination of awareness campaigns, rehabilitation efforts, and engagement programs, the SM Cares for the Environment Program helps increase environmental consciousness among Filipinos. Additionally, SM's core operational sustainability programs emphasize: solid waste management, energy and water efficiency, and air quality.

- **Solid Waste Management:**
  One of the central pillars to SM Prime's operational sustainability program is waste management. The company operates a comprehensive waste management program that engages all stages of operation and takes into consideration the entire life cycle of the products and materials consumed on a daily basis.

SM Supermarket "My Own Bag Wednesday"

- A long-standing initiative of SM Prime has been the "My Own Bag" Wednesday program, conducted nationwide in all SM Supermarkets. The program supports the growing trend towards plastic control in the Philippines and fosters customer awareness of their plastic consumption.

SM Eco Bag

- In 2012 SM Prime released the fourth edition of the SM Eco Bag, SM Prime's reusable shopping bag to encourage mall goers to minimize plastic consumption and adopt sustainable lifestyle choices. The Eco Bag is the symbol of SM Prime's commitment to fostering a more conscious and environmentally aware population. Currently there are over 3.5 million Eco bags in circulation, helping to minimize the ecological footprint of the company's patrons and spreading awareness of the call to safeguard our natural ecosystems.

Trash to Cash

- One of SM's most awarded environmental programs is the "Trash to Cash" recycle market. This initiative was first implemented in February of 2007 to provide a public incentive to properly recycle all waste materials. This event has gained widespread participation, and is held simultaneously in all malls every 1st Friday and Saturday of the month. To date, the program has saved an equivalent of almost 37,000 seven year old trees through the program's recycling efforts.

- **Energy Efficiency:**

Whether by innovating technology or adopting novel operational practices, SM Prime actively pursues optimal energy efficiency. SM Prime partners with local utility companies, source vendors, government agencies, and international institutions to further these efforts.

Earth Hour

- The Philippines again ranked as the country with the highest participation for Earth Hour in 2012. SM Prime continues to work with WWF Philippines, in this campaign by promoting mall-wide support and participation.

(Left) SM Prime incentivises recycling and sustainable lifestyle choices through the monthly Trash to Cash Recycling Market; (Right) Top Leaders' Forum names – James Crask, Senior Manager, PricewaterhouseCoopers LLP (London) Risk and Business Continuity Practice; Wynnford Medrano, Head of Procurement and Property Management, AXA Philippines; Annie Garcia, President, SM Supermalls; Kiki Lawal, Program Officer for Business Partnerships, United Nations Office for Disaster Risk Reduction (UNISDR); Jerry Velazquez, Senior Regional Coordinator, UNISDR; Sandra Wu, President and CEO, Kokusai Kogyo Holdings Co. Ltd., Brigitte Leoni, Regional Communications Officer, UNISDR; Hans Sy, President, SM Prime Holdings; Rien Harmans, President and CEO, AXA Philippines)

Enterprise Building Automation Systems

- This technology results in savings of over 112,000,000 kilowatt hours, or almost Php1.0 billion annually across all the SM Supermalls.

Energy Efficiency Program

- To streamline the efficiency of all of malls nationwide, the company controls and trouble-shoots its energy policies through sequential batch reactors; and SM Prime ensures that it attains the optimal level energy efficiency in its refrigeration process by utilizing an online system to monitor operations and alert staff on when temperatures vary outside appropriate levels.

- **Water Conservation:**

Retail institutions traditionally use huge amounts of water to serve their patrons. However, at SM Prime, the company continues to innovate in ways that both conserve and more efficiently utilize water without compromising the needs of the company's customers.

Philippine Clean Water Act

- To assure compliance with the Philippine Clean Water Act, SM Prime monitors all water processed and intended for discharge. More than this, all malls are fully outfitted with sewage treatment plants (sequential batch reactors).

Low-Flow Toilets / Waterless Urinals / Faucet aerators

- To optimize its level of water efficiency, SM Prime has switched to less resource-intensive bathroom facilities that simultaneously achieve optimal/superior levels of performance and hygiene. Currently, all SM Supermalls use aerated "foaming cap" faucets that ensure a low rate of flow. These fixtures operate at a level that is 75% more water-efficient than traditional models, and reduce the water flow sent to sewage treatment plants.

Water Recycling System

- Each SM Supermall operates water efficiency and control measures in all stages of use through the malls' tertiary treatment plants. Across SM Prime's facilities, this technology enables the company to recycle approximately 35% of all water for landscaping and air-conditioning purposes.

- **Air Quality:**

As one of the four pillars of SM Prime's operational sustainability program, SM Supermalls work towards enhancing air quality in all mall and community areas through various efforts and campaigns.

o SM Prime strictly enforces a "No Smoking" policy in all mall interiors to minimize the energy required to clean and circulate indoor air while maintaining a healthy interior atmosphere.

o SM Prime also promotes sustainability and air quality through the company's annual biofuel seminars, an educational campaign conducted for employees, tenants, and public transport operators. These seminars are operated in partnership with the Department of Energy and serve to raise awareness about society's reliance on fossil fuels, while educating the audience on alternative fuel sources and energy conservation.

o Another novel method through which SM reduces emissions of greenhouse gases is through the installation of the "Park Finder" system in SM parking lots. This system utilizes LED lights placed above every parking slot in order to help the customer find open parking spaces. This mechanism reduces the time used for searching for parking and simultaneously reduced the idle emissions generated during this time.

Top Leaders Forum

- Conducted at the SMX Convention Center on September 25, 2012, the Top Leaders' Forum is a roundtable discussion to forward concrete solutions towards making the Asia-Pacific region more disaster resilient. A joint effort of the United Nations Office for Disaster Risk Reduction (UNISDR) and SM Prime, the forum was the first of its kind in the Philippines, and exemplifies SM Prime's commitment to sustainability, business continuity, and disaster resilience. Stemming from the Top Leaders' Forum and the existing disaster resilience efforts of SM Prime, Mr. Hans T. Sy was also formally inducted into the UNISDR's very prestigious Private Sector Advisory group to serve as a leading example of business continuity and disaster resilience within the Asian private sector.

(Left) Members of the community celebrate during the Happy Walk, at SM North EDSA, in celebration of Down Syndrome Consciousness Month; (Right) SM Prime celebrates women and breastfeeding mothers with the fun run for international breastfeeding month

SM Cares for Persons with Disabilities Program

One of the most active and celebrated committees under SM Cares is the SM Cares for Persons with Disabilities Program. This multi-awarded program has raised awareness of the issues surrounding the plight of persons with disabilities for the last five years. Initially serving to ensure that SM Prime's frontliners were trained to respond to the unique needs of PWDs, given that SM Supermalls are fully equipped to serve them, the program has evolved to foster awareness of PWD issues and celebrate their membership in and contribution to society. Other than making the malls physically accessible to the disabled, the program developed and installed special video relay service units at SM Mall of Asia and SM North EDSA to provide free service to assist the hearing and speech impaired.

Some of the unique efforts of this program during 2012 included a PWD Job Fair at SM City North EDSA, in celebration of National Information and Communications Technology Month. SM Prime also conducted seminars for PWD farmers in Rosales, informing them about additional farming and cultivation techniques and providing livelihood by hosting Farm-to-Market programs in the mall. Additionally, SM annually hosts the Angels Walk for Autism, in partnership with numerous institutions, to celebrate Philippine Autism Week and empower this demographic within our society. Similarly, the company honors Down's Syndrome Consciousness Month by fostering awareness of this condition through the annual "Happy Walk" at SM North EDSA.

This program even endeavors to provide truly unique and enjoyable experiences to PWDs through various initiatives and efforts, such as the Reach for the Sky event held in Angeles City Flying Club in Mabalacat, Pampanga. At this event, PWDs of all ages were informed about aircraft control, and then were treated to joy rides in ultra-light airplanes with the help of professional pilots. SM Prime has been consistently and thoroughly lauded by local, national, and international institutions, as the company furthers its commitment to improving the lives of PWDs.

SM Cares for the Youth Program

The mission of the SM Cares for the Youth Program is to ensure that all children who set foot in an SM Mall are safe and have joyful and inspiring experiences. Through this program, all SM Prime's frontliners are trained to manage the needs of children and all malls have been equipped with the features to ensure the safety and accessibility for the youth. Beyond these efforts, the committee conducts programs to educate the youth and instill in them a passion for learning and responsible citizenship. Such efforts toward this goal include SM Prime's celebration of National Children's Book Reading Day across all malls in the Philippines and in China. To date, more than 23,000 students have participated in these events and over 50,000 books have been donated to public schools. Additionally, the committee has partnered with the Department of Education's Adopt-A-School program and donated chairs, desks, and electronics to over 80 schools nationwide. This program under SM Cares also conducts one of the largest annual CSR events for the SM Group, the Global Youth Summit. Alongside AISEC, the largest youth-driven organization in the world, the summit unites over 1,000 student leaders to listen to inspirational messages and forward their proposals for socially beneficial endeavors. This committee enhances its ability to impart impactful initiatives by partnering with numerous local and international organizations such as UNICEF, the World Health Organization, Council for Welfare of Children, and Philippine National Police, Food for the Hungry International Federation-Philippine Givers Fund, Department of Social Welfare and Development, and the International Labor Organization. By giving the youth the opportunity to achieve their dreams in a happy and safe environment, SM Prime is lending a hand in building their future.

SM Cares for Women and Breastfeeding Mothers Program

In 2012, SM Prime revisited its existing SM Cares programs in order to further enhance the company's ability to create positive impact across all committees. One result of this endeavor was to combine the SM Cares for Women program and the SM Cares for Breastfeeding Mothers program into one larger committee dedicated to empowering the Filipina. This effort to enhance gender equality and awareness of women's rights issues is very important to SM Prime, as nearly 60% of the company's customer base is female, and Filipina women continue to be underrepresented in many spheres. In 2012, this program began the year by celebrating International Women's Month (March) nationwide across all SM Supermalls. Moreover, partnering with the Gifts and Graces Fair Trade Foundation, SM Prime's celebration of International Women's month continued with a roaming exhibit on extraordinary women in the fields of sustainable fashion and livelihood projects. Moving forward in 2013, this program will be working with local and international organizations to raise awareness in August for International Breastfeeding Month, and to provide volunteer opportunities for female employees and customers in needy orphanages dedicated to young infants and children.

(Left) Family members welcome returning OFWs at SM Prime's annual 'Handog ng SM para sa OFW' celebration; (Right) Senior citizens increase their computer literacy through the highly popular 'Oldies but Techies" seminars conducted in SM Supermalls

SM Cares for Overseas Filipino Workers Program

The SM Cares for OFWs Program was created to bridge the gap between OFWs and their families by offering them unique services and programs to keep them connected. Through the network of SM Global Pinoy Centers, OFW families can communicate with their loved ones abroad free of charge, and receive BDO remittance and foreign exchange services. Moreover, through this program, patrons can retrieve forms from the Philippine Overseas Employment Agency, avail of pre-employment seminars, and obtain Overseas Employment Clearances through Global Pinoy Centers. This committee also broke new ground by opening the first Seafarers Center at SM City Manila, which aims to provide a multitude of services to current and potential seafarers. The program also directly engages OFW-families through programs and seminars geared towards educating them on their rights and opportunities. Such programs include the Invest to Success caravan seminars, conducted over a period of one month to educate OFW families on how to own and operate franchises and pursue other business opportunities. Lastly, this program closes each year with the annual "Handog ng SM Para sa mga OFWs", a nationwide Christmas celebration dedicated to OFW families across all SM malls.

SM Cares for the Elderly Program

Beginning with programs aimed at providing specialized service, the SM Cares for the Elderly program has evolved to include fun and pro-active initiatives to engage and empower senior citizens. One such program that has gained widespread interest is the seniors zumba program; across 20 SM malls, an average of approximately 300 seniors gather to pursue physical fitness in a fun and entertaining way. The committee also endeavors to empower senior citizens by increasing their computer literacy through the "Oldies but Techies" program. This program is offered nationwide and has been conducted for over 6,000 senior citizens to date. In addition to these efforts, SM Prime also highlights the experience and stories of senior citizens through the roaming "Oldietorium" exhibits across numerous SM Supermalls. Lastly, the program also celebrates Filipino Elderly Week every October in all SM Supermalls. In 2012, the National Filipino Elderly Week was celebrated with a "Walk for Life" walkathon aimed at raising public awareness on health and well-being concerns for seniors. Over 3,000 senior citizens from 13 cities participated in this event at the SM Mall of Asia.

Additional Efforts

FECI CSR Activities

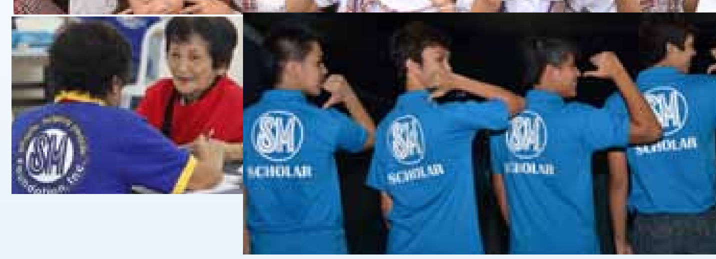
- At the Family Entertainment Center Inc., the approach to CSR for 2012 was to share, with less fortunate children, the enjoyment and excitement of playing in a theme park and other indoor educational centers for the holiday season. The beneficiary of the company's CSR efforts was My Father's House, an international organization committed to showing the love of Christ to children and families in crisis worldwide by caring for them physically, mentally, emotionally, and spiritually. Through this endeavour, and with My Father's House, over 30 orphaned children were treated to a full day of fun, festivities, food, games, gifts, and various activities throughout SM Mall of Asia in the spirit of giving and sharing.

WATC CSR Activities

- Ingraining social responsibility directly into their business model, West Avenue Theatres Corporation sealed a partnership with Habitat for Humanity with the E-Plus card. This card not only allows for convenient access to movies across all SM facilities, but also donates proceeds from all gift card purchases towards increasing disaster resilience in highly vulnerable areas throughout the Philippines. In addition to this, WATC utilizes cinema spaces to advertise socially beneficial initiatives from a variety of partners. These partner institutions in 2012 included: Premyo Rizal, the Department of Education, and Bangko Sentral Ng Pilipinas to name a few.

CORPORATE SOCIAL RESPONSIBILITY

A Note from SM Foundation



SM Foundation remained steadfast in reaching out to more beneficiaries in 2012 through its advocacies in education, health and livelihood. These advocacies continued to show significant progress, backed by the fervent support of SM and its subsidiaries and various donor institutions and individuals.

To support its education advocacy, SM Foundation employed a two-pronged approach-- provide college scholarships to give quality education to the financially-challenged youth and donate school buildings to help address the classroom shortage in the country. Through its scholarship program, SM Foundation was able to produce a significant number of exceptional graduates who received Latin honors and academic distinctions. Many of the graduating scholars who took government board exams have also landed on the top ten.

In 2012, there were 1,200 SM Foundation college scholars enrolled in various courses. There were 164 college graduates, with 76 of them earning honors. To date, SM Foundation has helped 1,500 students graduate through its scholarship program which paved the way for employment both here and abroad. Adding to this number were 93 technical-vocational scholars that graduated last year.

SM Foundation also donated ten new school buildings in 2012 to public schools in Metro Manila (Navotas City), Cavite, Cagayan de Oro, Quezon, and Pampanga. Combined, these school houses provided 26 new classrooms. Some of these school buildings were donated in partnership with SM Development Corporation, SM Prime Holdings, BDO Foundation and Deutsche Bank.

To enhance public health among indigent communities, SM Foundation conducted 85 medical missions in 2012 which surpassed its target for the year. These directly served over 89,000 beneficiaries in 2012. Since the project's beginnings in 2001, total medical missions amounted to 739, reaching a total of 600,203 beneficiaries. SM Foundation's "Virtual Blood Bank" project also garnered the Jose Rizal Award, the highest recognition given to an organization by the Philippine Blood Center (PBC) of the Department of Health (DOH). The "Virtual Blood Bank" is the first of its kind in the country. The blood collected from employees is banked with the PBC and is available for SM employees and their families. Excess supply was donated to victims of the Dengue outbreak in 2011 and 2012.

Under its Felicidad T. Sy Wellness Centers program, SM Foundation has likewise refurbished a total of eight rundown public health centers bringing to 77 the total number of centers that were restored since the start of the project.

With regard to training on sources of livelihood, SM Foundation, through the Kabalikat sa Kabuhayan program provides farmers with training on effective ways of producing high yielding fruits and vegetables. Through this undertaking, trainings to farmers in 10 provinces were provided, covering 175 barangays and 42 municipalities. SM, in turn, supports the farmers by providing a market for their produce through the group's retail chains. SM Foundation trained a total of 1,245 farmers bringing the total of farmer beneficiaries to 5,421 since the project's inception.

Notably, SM Foundation continued to support community development initiatives in SM's flagship eco-tourism development in Nasugbu, Batangas. Initiatives are geared towards skills training, mangrove planting and livestock raising and dispersal.

SM Foundation was also quick to respond to calamity victims through Operation Tulong Express. When the Southwest Monsoon disaster struck in August 2012, SM Foundation distributed kalinga packs that benefitted a total of 54,200 families. In cooperation with SM Cares and SM Food Group and the Department of Social Welfare and Development, we also distributed relief goods to 6,600 families in Compostela, New Bataan, Montevista and Moncayo in the province of Compostela Valley in the aftermath of Typhoon Pablo. In addition, the SM Group of Companies donated Php10 million to the Philippine Red Cross for the rebuilding of some of the 40,000 homes that were destroyed during the typhoon, purchase of food and medicines for the victims and for the provision of a livelihood program.

These accomplishments were a result of the hard work and dedication of the team behind SM Foundation. Through resolute partnerships with both the private and public sectors, SM Foundation will continue to carry out its advocacies to serve more communities.

BOARD OF DIRECTORS

FACES

MR. HENRY SY, SR.
Chairman

Mr. Henry Sy, Sr. has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman of SM Land, Inc., SM Investments Corp., Highlands Prime, Inc. and SM Development Corp. He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of the SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses.

MR. JOSE L. CUISIA, JR.*
Vice Chairman and Independent Director

Mr. Jose L. Cuisia, Jr. has served as Vice Chairman of the Board of Directors of SM Prime since 1994. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company and is currently the Vice-Chairman of Philamlife since August 2009. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. In May 2011, he was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton School of the University of Pennsylvania for an outstanding career in the country's banking and social security system.

MR. HANS T. SY
Director and President

Mr. Hans T. Sy has served as Director since 1994 and as President since 2004. He holds many key positions in the SM Group, among which are Adviser to the Board of SM Investments Corporation. He is Director and Chairman of China Banking Corporation, Director of Highlands Prime, Inc. and SM Land, Inc. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

MR. HENRY T. SY, JR.
Director

Mr. Henry T. Sy, Jr. has served as Director since 1994. 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. At present, he is also Vice Chairman/President of SM Land, Inc., Vice Chairman of SM Investments Corporation and SM Development Corporation, President of Highlands Prime, Inc., Director in BDO Unibank, Inc. and Chairman of Pico de Loro Beach and Country Club Inc.. He is also the President of the National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

MR. HERBERT T. SY
Director

Mr. Herbert T. Sy has served as Director since 1994. He is an Adviser to the Board of SM Investments Corporation and is currently the Vice Chairman of Supervalue, Inc., Super Shopping Market, Inc. and Sanford Marketing Corporation and Director of SM Land, Inc. and China Banking Corporation. He holds a Bachelor's degree in management from De La Salle University. He also holds board positions in several companies within the SM Group.

MR. JORGE T. MENDIOLA
Director

Mr. Jorge T. Mendiola was elected as Director in December 2012. He is currently the President of SM Department Stores. He started his career with the SM Department Stores as a Special Assistant to the Senior Branch Manager in 1989 and rose to become the President in 2011. He is also the Vice Chairman for Advocacy of the Philippine Retailers Association. He took his Masters in Business Management from the Asian Institute of Management and has an A.B. Economics degree from Ateneo de Manila University.

MR. JOSELITO H. SIBAYAN*
Independent Director

Mr. Joselito H. Sibayan has spent the past 25 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles (UCLA), he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Markets' International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He put up CSFB's Manila representative office in 1998, which he later migrated to branch status. He was elected as an Independent Director in 2011.

MR. GREGORIO U. KILAYKO*
Independent Director

Mr. Gregorio U. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Barings' stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. He was elected as Independent Director in 2008.

** Independent director – the Company has complied with the Guidelines set forth by Securities Regulation Code (SRC) Rule 38, as amended, 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.*

MS. ELIZABETH T. SY
Adviser to the Board

Ms. Elizabeth T. Sy was elected as Adviser to the Board in April 2012. She was a Senior Vice President for Marketing from 1994 up to April 2012. She is a Director of SM Development Corporation and SM Land, Inc., and Co-Chairman of Pico de Loro Beach and Country Club Inc. She is also actively involved in the Group's other tourism and leisure business endeavors, overseeing operations as well as other marketing and real estate activities.

MS. TERESITA SY-COSON
Adviser to the Board

Ms. Teresita Sy-Coson has served as Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and 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 Chairman of BDO Unibank, Inc., Vice Chairman of SM Investments Corporation and Director of SM Land, Inc. She also holds board positions in several companies within the SM Group.

BOARD COMMITTEES

Audit and Risk Management Committee

Jose L. Cuisia, Jr.	Chairman, Independent Director
Gregorio U. Kilayko	Member, Independent Director
Joselito H. Sibayan	Member, Independent Director
Jose T. Sio	Member
Serafin U. Salvador	Member
Atty. Corazon I. Morando	Member

Compensation Committee

Hans T. Sy	Chairman
Gregorio U. Kilayko	Member, Independent Director
Joselito H. Sibayan	Member, Independent Director

Nomination Committee

Herbert T. Sy	Chairman
Jose L. Cuisia, Jr.	Member, Independent Director
Gregorio U. Kilayko	Member, Independent Director

Compliance Officer
Atty. Corazon I. Morando

Corporate Information Officer
Jeffrey C. Lim

EXECUTIVE OFFICERS

FACES

RONALD G. TUMAO Vice President, Market Research and Planning
CHRISTOPHER S. BAUTISTA Vice President, Internal Audit
DIANA R. DIONISIO Vice President, Finance (China Projects)
JEFFREY C. LIM Executive Vice President and Chief Finance Officer
HANS T. SY President
ATTY. CORAZON I. MORANDO Senior Vice President, Legal and Corporate Affairs / Assistant Corporate Secretary
KELSEY HARTIGAN Y. GO Vice President, Information Technology
TERESA CECILIA H. REYES Vice President, Finance
ATTY. EDGAR RYAN C. SAN JUAN Vice President, Legal
ATTY. EMMANUEL C. PARAS Corporate Secretary

SPOTLIGHT

JEFFREY C. LIM

Executive Vice President
and CFO, SM Prime

The CFO Awardee with the Sy family: Left to right, Elizabeth Sy, Teresita Sy-Coson, Henry Sy, Sr., Henry Sy, Jr., Hans Sy, Harley Sy.

SM Prime has grown into what it is right now and continues to perform excellently owing to the teamwork and commitment of everyone in the organization; from our President, Mr. Hans Sy, the senior executives and managers, down to the rank and file employees.

First of all, congratulations on being named the ING-FINEX CFO of the Year for 2012. Please share with us how it feels to win this prestigious award.

I am grateful and humbled by this prestigious award. To be recognized among all of the other outstanding CFOs nominated is truly an honor. However, this recognition is not mine alone but for those of my team in SM Prime as well. I hope that I am able to inspire others to work hard to achieve their dreams.

Work-wise, this award has added to my confidence in playing my role in SM Prime. It has also further fueled my drive to always strive to be better at what I do.

Kindly tell us a bit about your background and career. When and how did you join SM Prime?

After earning my Bachelor of Science in Business Administration degree at University of the East, I worked as an auditor in SGV for almost seven years. After which, I joined Unisys for about 5 years, first as an Accounting and Treasury Manager in its Philippine office, then as Regional Manager of the Financial Planning Group of its Hong Kong Office.

I joined SM Prime in June 1994 as Vice President for Finance and I was appointed as its Executive Vice President and Chief Finance Officer in August 2006.

What do you consider as the key competencies that today's CFOs need to have in order to be successful?

The role of a CFO today is continually evolving due to the fact that the environment in which companies are operating is also changing. CFOs now are expected to be well-rounded, and are also increasingly being counted upon as a partner of the CEO in determining business strategies to achieve the company's objectives. As such, apart from exceptional financial skills, CFOs also need to be competent in areas of strategy setting, risk management as well as control, governance and accountability. As more time is spent dealing with business partners, investors and other stakeholders, effective communication skills may also become necessary in becoming a successful CFO.
Equally important is the CFO's character. Integrity and a strong ethical compass are a must. And of course, one has to be hard working, too.

How has SM Prime shaped you as a CFO?

My role as Executive Vice-President and CFO entails exposure to the various facets of the organization that have equipped me to be the CEO's strategic partner. My responsibility extends beyond just analyzing the numbers or finding the efficient financing for implementing a project. It is also my role to know the impact of a decision on our company's reputation, compliance, the interest of our employees, business partners and investors, and even the environment. In short, SM Prime has helped me become a well-rounded CFO. Moreover, SM's pool of dynamic executives and staff promote a culture that has influenced me to greatly value ethics as a professional.

What would you count as your most important achievements so far at SM Prime?

SM Prime has grown into what it is right now and continues to perform excellently owing to the teamwork and commitment of everyone in the organization; from our President, Mr. Hans Sy, the senior executives and managers, down to the rank and file employees.

I take pride in being able to contribute to the growth of SM Prime since I joined in June 1994, the same year that it went public and was listed on the Philippine Stock Exchange. During that time, there were only four shopping centers. To date, we now have 46 malls in the Philippines and five malls in China with a consolidated net income of close to P11 billion. From a return on equity of 7% in 1994, it went up to 16% as of 2012. I believe being able to contribute to the continued growth of SM is the achievement that I hold dearly in my heart. It is this achievement that pushes me to work even harder in my job now.

Who would you consider to have been your mentors? How have they guided you in your career?

I feel privileged to have worked with SM's visionary, Mr. Henry Sy, Sr. and some of his children namely, Ms. Tessie Sy-Coson, Mr. Henry Sy, Jr. and Mr. Hans Sy. I also learned a lot from Mr. Jose T. Sio, SMIC's CFO, who was my partner-in-charge at SyCip Gorres Velayo & Co. Their passionate and proactive approaches to growing the business are exceptional.

What has been your greatest challenge to date as SM Prime's CFO? What challenges lie ahead for SM Prime and for you as its CFO?

Looking back, SM Prime's initial foray into China was not an easy task. When we were starting, the returns were not in line with our expectations and we were aware of the fact that we do not have the brand equity that we are known for in the Philippines. But with hard work and careful decisions we continuously employ, we saw significant improvements in the performance of our China malls. Right now, our malls are enjoying an average occupancy rate of 96% as we start to gain traction in China's second and third-tier cities.

Moving forward, sustaining our growth trajectory in both the Philippines and China will be challenging given competition is becoming more aggressive. We acknowledge the presence of competition as we see a number of market players also aggressively expanding. This is why we have been very proactive and will continue to do so in order to ensure the sustainability of SM Prime's growth.

CORPORATE GOVERNANCE

SM Prime Holdings, Inc. recognizes the value of its corporate governance culture and has taken measures to further develop its related policies and programs to keep pace with global good governance practices.

Board of Directors

SM Prime's corporate governance culture emanates from its Board of Directors. It is the Board's responsibility to ensure the long term financial success of the business in a manner that upholds the principles of fairness, accountability and transparency, and ensures that the best interests of Company, its shareholders and various stakeholders are adequately promoted and protected.

Board Composition

The Board of Directors is composed of eight (8) directors, three (3) of whom are non-executive independent directors. Mr. Jose L. Cuisia, Jr., is SM Prime's Vice Chairman and an independent director. Under SM Prime's Manual on Corporate Governance, an independent director must possess all of the qualifications and none of the disqualifications of a regular director. He must also 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 SM Prime's independent directors have served the Company as a regular director, officer or employee.

The positions of the Chairman of the Board and the President are held by separate individuals. Their functions and responsibilities are clearly identified in the Manual on Corporate Governance. It is the Company's practice that its non-executive directors meet at least once a year, absent any executive directors or representatives of Management. All SM Prime's Directors, Officers and members of Senior Management have undergone training on corporate governance as prescribed by the Manual on Corporate Governance.

Board Duties and Responsibilities

The Manual on Corporate Governance specifies the roles, duties and responsibilities of the Board of Directors in compliance with relevant laws, rules and regulations. In full adherence to the principles of corporate governance, the Board is tasked to perform the following:

- Periodically review SM Prime's vision, mission and values and strategies;
- Ensure SM Prime's compliance with all relevant laws, regulations and code of best business practices;
- Adequately serve SM Prime's stakeholders and formulate a clear policy on communicating or relating with them through an effective and efficient investor relations program;
- Adopt an effective system of internal checks and balances;
- Identify, assess and diligently mitigate key risk areas;
- Meet regularly, giving due consideration to independent views and ensuring that proceedings are duly minuted;
- Keep Board authority within the powers prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
- Require each elected director, before assumption of office, to attend a seminar on corporate governance conducted by a duly regulator-accredited provider;
- Formulate and approve policies to ensure the integrity of related party transactions between and among the Company and its related companies, business associates, major stockholders, directors and officers and their material relations; and
- Establish and maintain an alternative dispute resolution system to settle conflicts between the Company and its stockholders or other third parties, including regulatory authorities.

Board Attendance

Regular meetings of the Board are held quarterly, but special meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year is a ground for temporary disqualification in the succeeding election.

Board Committees

The Board has established three (3) committees to aid in the performance of its duties. Each committee has adopted a Charter which defines its composition, roles and responsibilities based on the provisions found in the Manual on Corporate Governance.

Directors	Regular	Regular & Organizational	Regular	Regular	Regular	Regular	Percentage
	2/17/12	4/24/12	6/11/12	7/30/12	10/29/12	12/10/12	
Henry Sy, Sr.	√	√	√	√	√	√	100%
Jose L. Cuisia, Jr.	√	√	√	√	√	√	100%
Henry T. Sy, Jr.	√	√	√	√	√	√	100%
Hans T. Sy	√	√	√	√	√	√	100%
Herbert T. Sy	√	√	√	√	√	√	100%
†Senen T. Mendiola*	√	X	√	√	√	n/a	80%
Gregorio U. Kilayko	√	√	√	√	√	√	100%
Joselito H. Sibayan	√	√	√	√	√	√	100%

**Mr. Senen T. Mendiola passed away on November 26, 2012.*

The Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked with the oversight of policies pertaining to salaries and benefits, as well as promotions and other forms of career advancement. The Committee is composed of three (3) members, two (2) of whom are independent directors.

Compensation and Remuneration Committee	
Hans T. Sy	Chairman
Gregorio U. Kilayko	Independent Director
Joselito H. Sibayan	Independent Director

Board Remuneration

Members of the Board of Directors receive a per diem of P10,000 (P20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. The amount of the per diem is openly discussed during the Annual Stockholders' Meeting and approved by SM Prime's shareholders. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

The Nomination Committee

The Nomination Committee reviews and evaluates 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. Furthermore, the Committee facilitates the annual performance evaluation of the Board as a whole, its respective Board Committees, the individual directors and the President. The Nomination Committee is composed of three (3) members, two (2) of whom are independent directors.

Nomination Committee	
Herbert T. Sy	Chairman
Jose L. Cuisia, Jr.	Independent Director
Gregorio U. Kilayko	Independent Director

Evaluation of the Board and President

Under the guidance of the Nomination Committee, the Board is tasked to conduct an annual performance evaluation. The evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for by SM Prime's Manual on Corporate Governance and By-Laws. Directors are asked to rate the performance of the Board, the Board Committees, themselves as directors and the President, as the embodiment of Management.

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.

The Audit and Risk Management Committee

The Audit and Risk Management Committee is composed of six (6) members, three (3) of whom are independent directors. 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 SM Prime'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.

Audit and Risk Management Committee	
Jose L. Cuisia	Chairman*
Gregorio U. Kilayko	Member*
Joselito H. Sibayan	Member*
Jose T. Sio	Member
Corazon I. Morando	Member
Serafin U. Salvador	Member

*Independent Director

The Committee undertook the SEC mandated Self-Assessment of the Performance of the Audit Committee under SEC Memorandum Circular No. 4, issued in 2012 and approved the areas of improvement and action plan resulting from said exercise.

Internal Audit

SM Prime's Internal Audit has a Charter that defines its roles and responsibilities. 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. The Charter requires the Internal Audit to do the following:

- 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.
- Implement the approved annual audit plan, including special tasks or projects mandated by the Audit and Risk Management Committee.
- Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.
- 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.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

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.

Enterprise Risk Management (ERM)

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit and Risk Management Committee. In 2012, the Committee took the following initiatives:

- Approved the Policy on Accountability, Integrity and Vigilance (PAIV) which provides for the process and safeguards of elevating concerns to Management on possible violations of anyone in the

CORPORATE GOVERNANCE

Company with regard to the Code of Ethics and other Company rules and regulations;

- Established a succession plan for the committee;
- Deliberated with the Internal Auditor and SGV & Co. on the state of risk-based internal controls;
- Prioritized and approved the comprehensive IT Security Policy;
- Reviewed the initial results of financial, operations, compliance and hazard risk assessments and mitigation exercises of core business units;
- Formalized the Financial Risk Management Policy that sets out SM Prime's approved strategies to manage financial risks;
- Initiated the formalization of SM Prime and Management Companies' business continuity and information security management systems;
- Reviewed the results of mall risk and security audits and monitored implementation of Management's action plans;
- Instructed Management to look into the evolving ASEAN Corporate Governance initiative from the regulators and advocacy groups and see what other enhancements can be appropriately pursued;

Policies

SM Prime has adopted and implemented several corporate governance policies and programs to supplement the foundation provided by its Manual on Corporate Governance and Code of Ethics. The Company regularly reviews and enhances these policies to keep pace with corporate governance best practice.

Manual on Corporate Governance

The Manual on Corporate Governance institutionalizes the principles of good corporate governance, defines the Company's compliance system and identifies the responsibilities of the Board of Directors in relation to good corporate governance. It also states the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance. The Manual further provides for the rights of all shareholders and the protection of the interests of minority stockholders. It likewise sets the penalties for non-compliance with the Manual.

There have been no deviations from the Manual since it was adopted. In January 2012, SM Prime submitted to the SEC its certification of full compliance with the Manual, certifying that its directors, officers and employees have adopted and fully complied with all leading practices and principles of good corporate governance as provided by in the Manual on Corporate Governance. (To access the full Manual on Corporate Governance, you may visit SM Prime's website at www.smprime.com)

Code of Ethics

The Code of Ethics reaffirms the Company's commitment to the highest standards of ethics and good corporate governance in the pursuit of SM Prime's mission and vision to serve the best interests of its stakeholders. The Code also sets guidelines for the Company's directors, officers and employees in the performance of their duties and responsibilities, and in the manner that they deal with investors, creditors, customers, contractors, suppliers, regulators and the public. The Code stresses the importance of 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 the promotion of corporate social responsibility.

Insider Trading Policy

Directors, officers and employees who have access to material, confidential and stock price-sensitive information (i.e., information on business transactions that have not yet been disclosed to the public) are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of quarterly and annual financial results and any other material information. To ensure compliance with the policy, SM Prime issues reminders to everyone in the organization before the release of financial reports and the disclosure of material information.

Guidelines on Acceptance of Gifts

Based on the Code of Ethics, SM Prime's directors, officers and employees are prohibited from soliciting or accepting gifts in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate give-aways, tokens or promotional items of nominal value. When it is deemed improper to refuse a gift, the issue is elevated to Management for proper disposition.

In the same manner, travel sponsored by any current or prospective business partner is prohibited under the Guidelines on Travel Sponsored by Business Partners.

Related Party Transactions

SM Prime discloses in detail, the 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. Management regularly presents the details of transactions entered into by the Company with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SM Prime conducts all related-party transactions on an arms' length basis.

Policy on Accountability, Integrity and Vigilance

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 of SM Prime 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 is tasked to conduct 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.

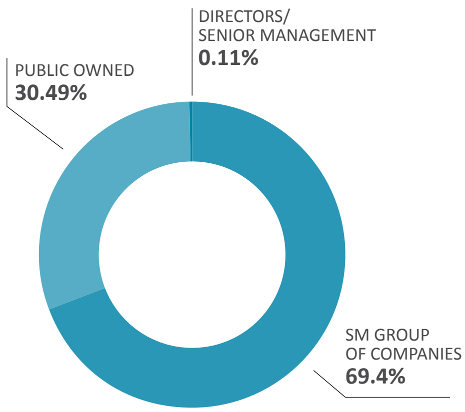
Disclosure and Transparency

SM Prime is committed to providing its shareholders and the public, timely and accurate information on the Company and its business. In accordance with this, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate corporate governance section that features among others, policies, programs and other relevant corporate governance information.

SM Prime also conducts regular briefings and meetings with investors, analysts and the press to keep them updated on the Company's various projects, financial and operational results. The presentation materials at these briefings, as well as the Company's SEC and PSE reports and annual reports, may be viewed and downloaded from the website. (Please visit SM Prime's website at www.smprime.com for access to disclosures, write-ups and other company information.)

Ownership Structure

The Company regularly discloses its top shareholders and beneficial owners holding more than 5% of SM Prime shares. SM Prime shares are of one class, common shares, and follow the one-share-one-vote. Shareholdings of directors and senior management are disclosed in the Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting.



The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) gives SM Prime's shareholders an opportunity to raise concerns, give suggestions and vote on relevant issues. Voting methods are clearly defined and explained to shareholders to ensure the observance of their voting rights and continued participation in the voting process. Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, shareholders may cumulatively vote for the election, removal or replacement of Board Directors. Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and key officers. Elected directors hold office for one (1) year until their successors are elected following the procedures set forth in the Company's By-Laws. All Board members are duly screened and deemed eligible and highly qualified by the Nomination Committee.

Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. Proxy forms may also be downloaded from the Company's website. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required. Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and the corresponding responses are recorded in the minutes of the ASM. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Senior Management, the Corporate Secretary and the Independent Auditors are always present during the ASM.

Rights of Shareholders

SM Prime encourages its shareholders' to exercise their voting right. Voting methods and vote counting systems employed by the Company are clearly explained to ensure the effectiveness of the voting process. Furthermore, the Company follows the system of cumulative voting for the election of its directors to give shareholders the opportunity to elect members of the Board individually.

Minority shareholders are given the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice. Minority shareholders are also given access to information relating to matters for which Management is accountable.

Shareholders have the right to receive dividends subject to the discretion of the Board. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code. The Manual on Corporate Governance protects the shareholders' appraisal right as well as their rights to vote, inspect corporate books and records, gain access to material information and receive an equitable share of the Company's profits. Under the Manual, the Board is tasked to promote shareholder rights, remove impediments to the exercise of these rights and provide remedies for violations of the same.

Employee Welfare

In line with its mission and vision, SM Prime strives to be an employer of choice and provides for the health, safety and welfare of its employees. Through the efforts of its Human Resources Department (HRD), the Company has established policies and programs that promote a safe and healthy work environment that caters to all cultures and creeds and encourages employee development and growth.

Wellness Program

SM Prime 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.

Orientations and Trainings

SM Prime understands that the continuous growth and development of its corporate governance culture rests on the promotion and awareness of the principles of good governance. As such, the Company continues to strengthen its training and orientation programs. (Please refer to SM Prime's website at www.smprime.com for the full details of the Company's training and orientation programs)

Through the HRD's Orientation for New Employees of SM (ONE SM), new employees are given an overview of SM Prime's corporate governance framework, policies and its various components. It also covers the importance of integrity and ethics in the business, the Company's core values and the role that each individual must play in the overall development of the corporate governance culture. Also included in the orientation are the salient points of the Code of Ethics, which focus on employee rights and obligations, as well as the promotion of good work ethics and values.

Citations

SM Prime was among the five (5) companies awarded during the Philippine Stock Exchange's 1st Bell Awards. The Bell Awards is a PSE initiative that aims to recognize companies that perform well in corporate governance.

The Institute of Corporate Directors (ICD) recognized SM Prime as a Gold Awardee during the ICD Annual Dinner. The Gold Award is given to companies that excel in the ICD Scorecard, a joint ICD, PSE and SEC project, which rates companies based on their performance in corporate governance related matters.

The Asset awarded SM Prime with its third consecutive Platinum Award in 2012. The Asset's Platinum Award recognizes companies for all-around excellence in management, financial performance, corporate governance, social responsibility, environmental responsibility and investor relations. The Asset Publishing and Research Ltd. is a Hong Kong based multi-media entity that serves the Asian financial markets, and is the publisher of The Asset magazine.

SM Prime was awarded by Corporate Governance Asia (CG Asia) with its Annual Recognition Award – The Best of Asia. The award is bestowed upon companies that demonstrate excellent corporate governance practices in line with Asian values and spirit. CG Asia also recognized SM Prime with the Best Environmental Responsibility award. Corporate Governance Asia is the only journal currently specializing in corporate governance in the region.

In 2012, Asia Pacific Real Estate Association (APREA) bestowed upon SM Prime its Merit Award for Corporate Governance. APREA is a non-profit industry association that represents and promotes the real estate asset class in the Asia Pacific region.

CORPORATE INFORMATION

Legal Counsel

SyCip Salazar Hernandez & Gatmaitan Law Offices
Gonzales Batiller Bilog Reyes & Associates
Pacis & Reyes Law Office
Novero Nolido Novero Cario & Associates
Caubang Law Office
Hilado Hagad & Hilado Law Office
Villa & Partners Law Office
Cabanlet Law Office
Falgui Law Offices
Puno & Puno Law Offices
Tarriela Tagao Ona & Associates
Tan Acut Lopez & Pison Law Offices

External Auditor

SyCip Gorres Velayo & Co.

Bankers

Allied Banking Corporation
Asia United Bank
Australia and New Zealand Banking Group Limited
Banco De Oro Unibank, Inc.
Bank of China
Bank of the Philippine Islands
Barclays Bank PLC
China Banking Corporation
Chinatrust (Philippines) Commercial Bank Corporation
Citibank, N.A.
Deutsche Bank AG Manila Branch
Development Bank of the Philippines
First Metro Investment Corporation
ING Bank N.V
JP Morgan Chase Bank
Land Bank of the Philippines
Maybank Group
Metropolitan Bank & Trust Company
Mega International Commercial Bank
Mizuho Corporate Bank, Ltd.
Philippine National Bank
Rizal Commercial Banking Corporation
Security Bank Corporation
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation
Union Bank of the Philippines

Stockholder Inquiries

SM Prime Holdings, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "SMPH".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Banco De Oro Unibank, Inc. – Trust and Investments Group

BDO Corporate Center, 7899 Makati Avenue, Makati City
Tel. (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54
Fax (632) 878-4056

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

2012
Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2012	**% to Revenues**	**2011**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	30,726	100%	26,897	100%	14%
Operating Expenses	13,995	46%	12,277	46%	14%
Operating Income	16,731	54%	14,620	54%	14%
Net Income	10,530	34%	9,056	34%	16%
EBITDA	20,687	67%	18,450	69%	12%

	Dec 31 2012	**% to Total Assets**	**Dec 31 2011**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	148,130	100%	128,324	100%	15%
Investment Properties	124,087	84%	107,836	84%	15%
Total Debt	52,239	35%	40,893	32%	28%
Net Debt	39,952	27%	29,913	23%	34%
Total Stockholders' Equity	69,944	47%	63,774	50%	10%

	Dec 31	
Financial Ratios	**2012**	**2011**
Current Ratio	1.34	1.47
Debt to Equity	0.43 : 0.57	0.39 : 0.61
Net Debt to Equity	0.36 : 0.64	0.32 : 0.68
Return on Equity	0.16	0.15
Return on Investment Properties	0.11	0.10
Debt to EBITDA	2.53	2.22
EBITDA to Interest Expense	9.42	9.47
Operating Income to Revenues	0.54	0.54
EBITDA Margin	0.67	0.69
Net Income to Revenues	0.34	0.34
Debt Service Coverage Ratio	3.61	6.72

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns forty six malls in the Philippines and five malls in China, posts 14% increase in gross revenues for the year 2012 to ₱30.73 billion from ₱26.90 billion in 2011. Rental revenues, accounting for 84% of total revenues, grew by 14% amounting to ₱25.90 billion from last year's ₱22.76 billion. This is largely due to rentals from new SM Supermalls 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%.

In terms of gross revenues, the five malls in China contributed ₱2.54 billion in 2012 and ₱2.05 billion in 2011, or 8% of total consolidated revenues. Likewise, in terms of rental revenues, the China operations contributed 10% and 9% to SM Prime's consolidated rental revenues in 2012 and 2011, respectively. Gross revenues of the five malls in China increased 24% in 2012 compared to 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 square meters of gross floor area. SM City 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 five malls is now at 92%.

For the year 2012, cinema ticket sales increased 14% to ₱3.48 billion from ₱3.05 billion in 2011 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. The major blockbusters shown in 2012 were "The Avengers," "Twilight Saga: Breaking Dawn Part II," "The Amazing Spiderman," "This Guy's in Love with U Mare," "The Mistress" and "Sisterakas". In 2011, major films shown were "Transformers 3: Dark of the Moon," "Praybeyt Benjamin," "Harry Potter & the Deathly Hallow 2," "No Other Woman" and "Twilight Saga: Breaking Dawn Part I."

Amusement and other revenues likewise increased by 24% to ₱1.35 billion in 2012 from ₱1.09 billion in 2011 mainly due to higher income from amusement rides. This account is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Operating expenses increased by 14% from ₱12.28 billion in 2011 to ₱14.0 billion in 2012 mainly due to opening of new malls and increase in administrative expenses particularly, utilities and manpower expenses. Same-store growth in operating expenses is 8%. Likewise, income from operations posted a 14% growth from ₱14.62 billion in 2011 to ₱16.73 billion in 2012. In terms of operating expenses, the five malls in China contributed ₱1.25 billion in 2012 and ₱1.05 billion in 2011, or 9% of SM Prime's consolidated operating expenses. Income from operations in China went up by 29% from ₱1.0 billion in 2011 to ₱1.29 billion in 2012.

Interest and dividend income increased by 12% to ₱406 million in 2012 compared to ₱361 million in 2011 mainly due to higher average balance of temporary investments in 2012 compared to last year.

Interest expense for the year likewise increased by 13% to ₱2.20 billion in 2012 from ₱1.95 billion in 2011 due to new loan availments.

Net income for the twelve months ended 2012 increased by 16% at ₱10.53 billion from last year's ₱9.06 billion. On a stand-alone basis, the net income of China operations increased to ₱1.10 billion in 2012 compared to ₱0.89 billion in 2011 for a 24% increase, while net income of the Philippine operations grew 15% at ₱9.43 billion in 2012 from ₱8.17 billion in 2011.

On the balance sheet side, cash and cash equivalents significantly increased by 17% from ₱8.29 billion to ₱9.71 billion as of December 31, 2011 and 2012, respectively. This account includes the remaining proceeds from loans drawn in 2012 amounting to ₱7.5 billion which will be used for working capital and capital expenditure requirements.

Investments held for trading decreased by 7% from ₱813 million to ₱759 million as of December 31, 2011 and 2012, respectively, due to maturity of investments in corporate bonds in March 2012.

Receivables increased by 25% from ₱4.71 billion to ₱5.88 billion as of December 31, 2011 and 2012, respectively, mainly due to increase in trade receivables. Likewise, prepaid expenses and other current assets increased by 13% from ₱1.28 billion to ₱1.44 billion as of December 31, 2011 and 2012, respectively, mainly due to prepaid taxes on investment properties and advances to contractors.

Investment properties increased by 15% from ₱107.84 billion to ₱124.09 billion as of December 31, 2011 and 2012, respectively, because of ongoing new mall projects located in Taguig, Parañaque and Cebu City in

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

the Philippines and Zibo and Tianjin in China. Expansions and renovations in SM Megamall, SM City Bacolod, SM City Sta. Rosa, SM City Clark and SM City Dasmariñas are also in progress.

Derivative assets decreased by 5% from ₱116 million to ₱110 million as of December 31, 2011 and 2012, respectively, due to revaluation. On the other hand, derivative liabilities increased by 3% from ₱238 million to ₱244 million as of December 31, 2011 and 2012, respectively, mainly resulting from mark-to-market losses on interest rate swaps used to hedge interest rate exposure on loans.

Other noncurrent assets increased by 31% from ₱3.15 billion to ₱4.13 billion as of December 31, 2011 and 2012, respectively. This account mainly consists of advances and deposits paid for leased properties.

Deferred tax assets decreased by 25% from ₱254 million to ₱190 million as of December 31, 2011 and 2012, respectively, due to reversal of net unrealized foreign exchange losses recognized in prior year, while deferred tax liabilities increased by 2% from ₱1.26 billion to ₱1.28 billion as of December 31, 2011 and 2012, respectively, due to net unrealized foreign exchange gains in 2012.

As of December 31, 2012, loans payable consists of unsecured Philippine peso-denominated loans obtained from a bank amounting to ₱800 million for working capital.

The increase in accounts payable and other current liabilities by 12% from ₱10.15 billion to ₱11.40 billion as of December 31, 2011 and 2012, respectively, is mainly due to payables to mall contractors and suppliers and accrued operating expenses.

Long-term debt increased by 26% from ₱40.89 billion to ₱51.44 billion as of December 31, 2011 and 2012, respectively, due to new loan availments amounting to ₱7.5 billion and $115 million, net of prepayments.

The increase in tenants' deposits by 12% from ₱7.47 billion to ₱8.39 billion as of December 31, 2011 and 2012, respectively, is due to the new malls and expansions which opened this year. On the other hand, liability for purchased land decreased 22% from ₱1.55 billion to ₱1.21 billion as of December 31, 2011 and 2012, respectively, due to subsequent payments.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) return on investment properties (ROI) which measures the ratio of net income to investment properties excluding shopping mall complex under construction; (7) earnings before interest, income taxes, depreciation and amortization (EBITDA); (8) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (9) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (10) operating income to revenues which basically measures the gross profit ratio; (11) EBITDA margin which measures the ratio of EBITDA to gross revenues and (12) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The Company's current ratio decreased to 1.34:1 from 1.47:1 as of December 31, 2012 and 2011, respectively, mainly attributable to loan payments due in 2012.

Interest-bearing debt to stockholders' equity increased to 0.43:0.57 from 0.39:0.61 as of December 31, 2012 and 2011, respectively, similarly net interest-bearing debt to stockholders' equity also increased to 0.36:0.64 from 0.32:0.68 as of December 31, 2012 and 2011, respectively, due to the additional borrowings. Debt service coverage ratio decreased to 3.61:1 from 6.72:1 for the years ended December 31, 2012 and 2011, respectively, due to higher current portion of long-term debt and interest expense in 2012 compared to 2011.

In terms of profitability, ROE slightly improved to 16% from 15% for the years ended December 31, 2012 and 2011, respectively. EBITDA increased by 12% to ₱20.69 billion in 2012 from ₱18.45 billion in 2011.

Debt to EBITDA increased to 2.53:1 from 2.22:1 as of December 31, 2012 and 2011, respectively, due to increase in long-term debt. While EBITDA to interest expense slightly decreased to 9.42:1 from 9.47:1 for the years ended December 31, 2012 and 2011, respectively, due to higher interest expense in 2012.

Consolidated operating income to revenues is healthy at 54% for the years ended December 31, 2012 and 2011. On a stand-alone basis, operating income margin of the Philippines and China operations is at 55% and 51% in 2012, compared to 55% and 49% in 2011, respectively.

EBITDA margin remains strong at 67% and 69% for the years ended December 31, 2012 and 2011, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 67% and 69% in 2012 and 68% and 72% in 2011, respectively.

Net income to revenues is steady at 34% for the years ended December 31, 2012 and 2011. On a stand-alone basis, net income margin of the Philippines and China operations is at 33% and 43% in 2012 and 2011.

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.

For the year 2013, the Company expects to incur capital expenditures of approximately ₱35 billion both for Philippines and China. This will be funded with internally generated funds and external borrowings.

As of December 31, 2012, SM Prime has forty six Supermalls strategically located in the Philippines with a total gross floor area of 5.6 million square meters. Likewise, the Company also has five Supermalls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, and Chongqing in China with a total gross floor area of 0.8 million square meters.

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 6.8 million square meters.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

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

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

- The Audit and Risk Management Committee is composed of seven (7) members, three (3) of whom are independent directors, namely Mr. Gregorio U. Kilayko, Mr. Joselito H. Sibayan and Committee Chairman, Mr. Jose L. Cuisia, Jr.

- We met five (5) times in 2012 (on February 17, April 24, June 11, July 30 and October 29);

Members	2/17/12	4/24/12	6/11/12	7/30/12	10/29/12	Percentage
Jose L. Cuisia, Jr.	√	√	√	√	√	100
Gregorio U. Kilayko	√	√	√	√	√	100
† Senen T. Mendiola*	√	√	√	X	n/a	75
Joselito H. Sibayan	√	√	√	√	√	100
Jose T. Sio	√	√	√	√	√	100
Serafin U. Salvador	√	√	√	√	√	100
Corazon I. Morando	√	√	√	√	√	100

**Mr. Senen T. Mendiola passed away on November 26, 2012.*

- Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes;

- We have reviewed and approved the amended Audit and Risk Management Committee Charter consistent with the provisions in SEC Memorandum Circular No. 4 on the Self-Assessment of the Performance of Audit Committees. Furthermore, we complied with the required self-assessment and submission of the results to the SEC accordingly. Subject Charter was ratified by the Board of Directors;

- We have reviewed and approved the following with regard to our Independent Auditor, SGV & Co. and our Internal Auditor:

  - Their respective annual audit plans, scope, risk-based methods and time table;
  - The results of their examinations and action plan to address pending audit issues; and
  - The assessment of internal controls and financial reporting;

- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles, relevant pending tax legislation which would impact SM Prime Holdings, Inc.;

- We have reviewed and approved all audit services provided by SGV & Co., and related audit fees;

- We have reviewed and ensured that the Company's related party transactions are conducted at arms' length basis;

- We have discussed the results of the enterprise-wide risk assessment and Management's action plan to address identified risks;

- We have discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standards, and we have received written disclosures and the letter from SGV & Co. as required by prevailing applicable Independence Standards and have discussed with SGV & Co., its independence;

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

- We have reviewed the financial statements of SM Prime Holdings, Inc. for the first quarter ended March 31, 2012, second quarter ended June 30, 2012, and third quarter ended September 30, 2012;

- Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the audited financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2012.

- We have reviewed and discussed the performance, independence and qualifications of the Independent Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Prime Holdings, Inc. for the year; and SGV & Co., did not render any other professional services in 2012. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2013.

18 February 2013

JOSE L. CUISIA, JR.*
Chairman

GREGORIO U. KILAYKO*
Member

JOSE T. SIO
Member

JOSELITO H. SIBAYAN*
Member

ATTY. CORAZON I. MORANDO
Member

SERAFIN U. SALVADOR
Member

**Independent Director*

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Prime Holdings, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the 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 financial statements and submits the same to the stockholders.

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

JOSE L. CUISIA, JR.
Vice Chairman

HANS T. SY
President

JEFFREY C. LIM
Executive Vice President / Chief Finance Officer

Signed this 18th of February, 2013

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2012, 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 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 auditor's 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 Prime Holdings, Inc. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0943-A (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 3669663, January 2, 2013, Makati City

February 18, 2013

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 20, 22 and 23)	**₱9,706,857,361**	₱8,290,216,039
Short-term investments (Notes 7, 20, 22 and 23)	**821,000,000**	876,800,000
Investments held for trading (Notes 8, 20, 22 and 23)	**759,300,343**	812,953,412
Receivables (Notes 9, 20, 22 and 23)	**5,880,081,880**	4,708,033,726
Available-for-sale investments (Notes 10, 20, 22 and 23)	**1,000,000,000**	1,000,000,000
Prepaid expenses and other current assets (Note 11)	**1,440,189,139**	1,276,452,460
Total Current Assets	**19,607,428,723**	16,964,455,637
Noncurrent Assets		
Investment properties - net (Notes 12 and 20)	**124,087,439,798**	107,836,216,127
Derivative assets (Notes 22 and 23)	**109,978,821**	115,618,680
Deferred tax assets (Note 18)	**190,463,028**	254,132,999
Other noncurrent assets (Note 13)	**4,134,582,818**	3,153,887,932
Total Noncurrent Assets	**128,522,464,465**	111,359,855,738
	₱148,129,893,188	₱128,324,311,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 22 and 23)	**₱800,000,000**	₱–
Accounts payable and other current liabilities (Notes 15, 20, 22 and 23)	**11,398,520,838**	10,150,278,123
Current portion of long-term debt (Notes 16, 20, 22 and 23)	**1,791,703,848**	799,086,409
Income tax payable	**632,900,873**	623,013,182
Total Current Liabilities	**14,623,125,559**	11,572,377,714
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 20, 22 and 23)	**49,647,118,755**	40,093,522,320
Tenants' deposits (Notes 21, 22 and 23)	**8,386,248,204**	7,467,302,387
Liability for purchased land - net of current portion	**1,214,756,670**	1,551,018,812
Deferred tax liabilities (Note 18)	**1,278,194,418**	1,258,514,789
Derivative liabilities (Notes 22 and 23)	**244,330,399**	237,979,926
Other noncurrent liabilities (Notes 12, 20, 22 and 23)	**1,836,373,166**	1,796,789,506
Total Noncurrent Liabilities	**62,607,021,612**	52,405,127,740
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 17 and 24)	**17,392,534,760**	13,917,800,067
Additional paid-in capital - net (Note 17)	**8,219,067,298**	8,219,067,298
Cumulative translation adjustment (Note 17)	**544,146,167**	872,658,862
Retained earnings (Note 17):		
Appropriated	**27,000,000,000**	7,000,000,000
Unappropriated	**16,890,136,797**	33,865,609,976
Treasury stock (Notes 17 and 24)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 22)	**69,944,410,317**	63,773,661,498
Non-controlling Interests (Note 17)	**955,335,700**	573,144,423
Total Stockholders' Equity	**70,899,746,017**	64,346,805,921
	₱148,129,893,188	₱128,324,311,375

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011	2010
REVENUE			
Rent (Notes 12, 20 and 21)	**₱25,902,081,684**	₱22,759,402,156	₱19,992,948,925
Cinema ticket sales	**3,477,261,663**	3,051,716,588	2,764,775,099
Amusement income and others	**1,346,966,010**	1,086,336,307	958,207,627
	30,726,309,357	26,897,455,051	23,715,931,651
COSTS AND EXPENSES			
Depreciation and amortization (Note 12)	**3,955,641,599**	3,829,971,166	3,501,183,977
Administrative (Notes 19, 20 and 21)	**3,886,571,608**	3,228,409,525	3,206,359,610
Film rentals	**1,877,504,253**	1,650,121,989	1,494,236,340
Business taxes and licenses	**1,760,649,386**	1,510,242,916	1,326,394,330
Management fees (Note 20)	**860,534,994**	794,923,211	647,342,667
Rent (Note 21)	**801,810,102**	589,134,834	503,533,075
Insurance	**247,640,906**	201,918,532	216,230,268
Others	**604,797,438**	472,774,273	376,101,148
	13,995,150,286	12,277,496,446	11,271,381,415
INCOME FROM OPERATIONS	**16,731,159,071**	14,619,958,605	12,444,550,236
OTHER INCOME (CHARGES) - Net			
Interest expense (Notes 14, 16, 20 and 23)	**(2,195,557,761)**	(1,948,257,322)	(1,746,215,754)
Interest and dividend income (Notes 6, 7, 8, 10 and 20)	**406,214,974**	361,227,330	251,102,302
Others - net (Notes 8, 13, 16 and 23)	**(653,110,383)**	(812,537,877)	(152,588,284)
	(2,442,453,170)	(2,399,567,869)	(1,647,701,736)
INCOME BEFORE INCOME TAX	**14,288,705,901**	12,220,390,736	10,796,848,500
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**3,313,221,804**	2,932,357,842	2,449,966,767
Deferred	**53,337,830**	(94,188,973)	206,748,328
	3,366,559,634	2,838,168,869	2,656,715,095
NET INCOME	**₱10,922,146,267**	₱9,382,221,867	₱8,140,133,405
Attributable to			
Equity holders of the parent (Note 24)	**₱10,529,954,990**	₱9,055,995,525	₱7,856,348,789
Non-controlling interests (Notes 2 and 17)	**392,191,277**	326,226,342	283,784,616
	₱10,922,146,267	₱9,382,221,867	₱8,140,133,405
Basic/Diluted Earnings Per Share (Note 24)	**₱0.606**	₱0.521	₱0.464

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
NET INCOME	**₱10,922,146,267**	₱9,382,221,867	₱8,140,133,405
OTHER COMPREHENSIVE INCOME (LOSS) - Net			
Cumulative translation adjustment (Note 17)	**(328,512,695)**	282,958,497	(91,770,374)
Unrealized loss on available-for-sale investments - net of tax (Notes 10 and 17)	–	(3,745,323)	1,230,084
	(328,512,695)	279,213,174	(90,540,290)
TOTAL COMPREHENSIVE INCOME	**₱10,593,633,572**	₱9,661,435,041	₱8,049,593,115
Attributable to			
Equity holders of the parent	**₱10,201,442,295**	₱9,335,208,699	₱7,765,808,499
Non-controlling interests (Notes 2 and 17)	**392,191,277**	326,226,342	283,784,616
	₱10,593,633,572	₱9,661,435,041	₱8,049,593,115

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

				Equity Attributable to
	Capital Stock (Notes 17 and 24)	**Additional Paid-in Capital - Net** (Note 17)	**Cumulative Translation Adjustment** (Note 17)	**Unrealized Gain on Available-for-Sale Investments** (Notes 10 and 17)
At January 1, 2012	**₱13,917,800,067**	**₱8,219,067,298**	**₱872,658,862**	**₱–**
Total comprehensive income	**–**	**–**	**(328,512,695)**	**–**
Appropriation	**–**	**–**	**–**	**–**
Cash dividends - ₱0.29 a share	**–**	**–**	**–**	**–**
Stock dividends - 25%	**3,474,734,693**	**–**	**–**	**–**
Dividends of a subsidiary	**–**	**–**	**–**	**–**
At December 31, 2012	**₱17,392,534,760**	**₱8,219,067,298**	**₱544,146,167**	**₱–**
At January 1, 2011	₱13,917,800,067	₱8,219,067,298	₱589,700,365	₱3,745,323
Total comprehensive income	–	–	282,958,497	(3,745,323)
Cash dividends - ₱0.27 a share	–	–	–	–
Dividends of a subsidiary	–	–	–	–
At December 31, 2011	₱13,917,800,067	₱8,219,067,298	₱872,658,862	₱–
At January 1, 2010	₱13,348,191,367	₱2,375,440,999	₱681,470,739	₱2,515,239
Total comprehensive income	–	–	(91,770,374)	1,230,084
Additional issuance of shares	569,608,700	5,843,626,299	–	–
Cash dividends - ₱0.25 a share	–	–	–	–
Dividends of a subsidiary	–	–	–	–
At December 31, 2010	₱13,917,800,067	₱8,219,067,298	₱589,700,365	₱3,745,323

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent

Retained Earnings					
Appropriated (Note 17)	**Unappropriated** (Note 17)	**Treasury Stock** (Notes 17 and 24)	**Total**	**Non-controlling Interests** (Note 17)	**Total**
₱7,000,000,000	**₱33,865,609,976**	**(₱101,474,705)**	**₱63,773,661,498**	**₱573,144,423**	**₱64,346,805,921**
–	**10,529,954,990**	**–**	**10,201,442,295**	**392,191,277**	**10,593,633,572**
20,000,000,000	**(20,000,000,000)**	**–**	**–**	**–**	**–**
–	**(4,030,693,476)**	**–**	**(4,030,693,476)**	**–**	**(4,030,693,476)**
–	**(3,474,734,693)**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**(10,000,000)**	**(10,000,000)**
₱27,000,000,000	**₱16,890,136,797**	**(₱101,474,705)**	**₱69,944,410,317**	**₱955,335,700**	**₱70,899,746,017**
₱7,000,000,000	₱28,562,329,066	(₱101,474,705)	₱58,191,167,414	₱758,715,232	₱58,949,882,646
–	9,055,995,525	–	9,335,208,699	326,226,342	9,661,435,041
–	(3,752,714,615)	–	(3,752,714,615)	–	(3,752,714,615)
–	–	–	–	(511,797,151)	(511,797,151)
₱7,000,000,000	₱33,865,609,976	(₱101,474,705)	₱63,773,661,498	₱573,144,423	₱64,346,805,921
₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
–	7,856,348,789	–	7,765,808,499	283,784,616	8,049,593,115
–	–	–	6,413,234,999	–	6,413,234,999
–	(3,337,047,842)	–	(3,337,047,842)	–	(3,337,047,842)
–	–	–	–	(206,197,712)	(206,197,712)
₱7,000,000,000	₱28,562,329,066	(₱101,474,705)	₱58,191,167,414	₱758,715,232	₱58,949,882,646

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱14,288,705,901**	₱12,220,390,736	₱10,796,848,500
Adjustments for:			
Depreciation and amortization (Note 12)	**3,955,641,599**	3,829,971,166	3,501,183,977
Interest expense (Notes 14, 16, 20 and 23)	**2,195,557,761**	1,948,257,322	1,746,215,754
Interest and dividend income (Notes 6, 7, 8, 10 and 20)	**(406,214,974)**	(361,227,330)	(251,102,302)
Unrealized foreign exchange loss (gain) - net	**(100,497,563)**	120,523,863	(84,810,032)
Mark-to-market loss (gain) on derivatives (Note 23)	**16,277,832**	226,901,219	(29,839,113)
Mark-to-market loss (gain) on investments held for trading (Note 8)	**706,500**	(13,439,353)	(14,231,667)
Operating income before working capital changes	**19,950,177,056**	17,971,377,623	15,664,265,117
Increase in:			
Receivables	**(1,196,584,369)**	(706,117,333)	(515,862,483)
Prepaid expenses and other current assets	**(165,253,383)**	(165,159,468)	(295,988,909)
Increase in:			
Accounts payable and other current liabilities	**816,102,704**	3,093,279,729	870,437,601
Tenants' deposits	**952,539,475**	981,080,452	762,974,229
Cash generated from operations	**20,356,981,483**	21,174,461,003	16,485,825,555
Income taxes paid	**(3,274,142,314)**	(2,711,823,417)	(2,572,575,448)
Net cash provided by operating activities	**17,082,839,169**	18,462,637,586	13,913,250,107
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 12)	**(21,114,932,036)**	(16,550,283,823)	(11,221,050,968)
Other noncurrent assets (Note 13)	**(1,013,987,073)**	854,989,275	(1,299,686,629)
Investments held for trading	**38,508,319**	(299,379,882)	(99,638,981)
Available-for-sale investments	**–**	100,000,000	–
Interest and dividend received	**404,648,011**	348,964,295	239,534,893
Net cash used in investing activities	**(21,685,762,779)**	(15,545,710,135)	(12,380,841,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14, 16 and 20)	**19,066,750,000**	15,894,082,275	14,224,724,000
Payments of:			
Loans (Notes 16 and 20)	**(6,673,225,943)**	(14,142,267,058)	(10,338,573,989)
Dividends	**(4,040,693,476)**	(4,006,411,766)	(3,543,245,554)
Interest	**(2,308,977,632)**	(2,028,628,142)	(2,355,255,672)
Payments to unwinding of interest rate swaps	**(4,287,500)**	(76,220,800)	–
Proceeds from additional issuance of shares (Note 17)	**–**	–	6,413,234,999
Net cash provided by (used in) financing activities	**6,039,565,449**	(4,359,445,491)	4,400,883,784
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(20,000,517)**	13,015,795	(40,644)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,416,641,322**	(1,429,502,245)	5,933,251,562
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**8,290,216,039**	9,719,718,284	3,786,466,722
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱9,706,857,361**	₱8,290,216,039	₱9,719,718,284

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. The Parent Company and its subsidiaries (collectively referred to as "the Company") develop, conduct, operate and maintain 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. Its main sources of revenue include rent income from leases in mall and food court, cinema ticket sales and amusement income from bowling, ice skating and others.

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

The Parent Company is 21.65% and 40.96% directly-owned by SM Investments Corporation (SMIC) and SM Land, Inc. (SM Land), respectively. SM Land is a 66.89% owned subsidiary of SMIC. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 18, 2013.

2. Basis of Preparation

The accompanying consolidated financial statements 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 peso, except when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting and Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS and PAS which the Company has adopted during the year:

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets,* became effective for annual periods beginning on or after July 1, 2011.

- PAS 12, *Income Taxes (Amendments) - Deferred Tax: Recovery of Underlying Assets,* became effective for annual periods beginning on or after January 1, 2012.

The standards that have been adopted are deemed to have no material impact on the consolidated financial statements of the Company.

<u>Future Changes in Accounting Policies</u>

Standards and Interpretations
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective. The Company will adopt these standards and interpretations on their effective dates.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2013. The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

    (a) The gross amounts of those recognized financial assets and recognized financial liabilities;

    (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

    (c) The net amounts presented in the statement of financial position;

    (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

        i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and

        ii. Amounts related to financial collateral (including cash collateral); and

    (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

    The amendments to PFRS 7 are to be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 9, *Financial Instruments: Classification and Measurement,* will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 reflects the first phase of the work on the replacement of PAS 39, *Financial Instruments*: *Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Company made an evaluation of the impact of the adoption of the standard and decided not to early adopt PFRS 9 for the 2012 reporting ahead of its effectivity date on January 1, 2015. Therefore, the consolidated financial statements as at December 31, 2012 do not reflect the impact of this new standard. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will potentially have no impact on the classification and measurement of financial liabilities.

- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. This standard replaces the portion of PAS 27, *Consolidated and Separate Financial Statements,* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC)-12 *Consolidation - Special Purpose Entities.* PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. Based on the reassessment of control following the provisions of this new standard as at December 31, 2012, the adoption of PFRS 10 will have no impact on the consolidated financial statements.

- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. This standard replaces PAS 31, *Interests in Joint Ventures,* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers,* and removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Based on the Company's reassessment, this standard will have no impact on its consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* will become effective for annual periods beginning on or after January 1, 2013. This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates.* These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, Fair *Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. This standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits (Revised)*, will become effective for annual periods beginning on or after January 1, 2013. Amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Company has to apply the amendments retroactively to the earliest period presented. This revised standard will have no material impact on the Company's financial position or performance.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not expect this revised standard to have material impact on its consolidated financial statements.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates. The Company does not expect this revised standard to have material impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities,* will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be applied retrospectively. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate,* 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 FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by 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. This interpretation will have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation will have no impact on the consolidated financial statements.

Improvements to PFRSs
The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance withPAS 23, Borrowing Costs. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information,* clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment,* clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The Company does not expect this amendment to have material impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments,* clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Company does not expect this amendment to have material impact on its consolidated financial statements.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities,* clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

Basis of Consolidation

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

Company	Country of Incorporation	Percentage of Ownership 2012	2011	SM Malls Owned
First Asia Realty Development Corporation	Philippines	74.19	74.19	SM Megamall
Premier Central, Inc.	- do -	100.00	100.00	SM City Clark
Consolidated Prime Dev. Corp.	- do -	100.00	100.00	SM City Dasmariñas
Premier Southern Corp.	- do -	100.00	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do -	100.00	100.00	–
Southernpoint Properties Corp. (SPC)	- do -	100.00	100.00	SM Lanang Premier
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.00	50.00	SM by the Bay
Affluent Capital Enterprises Limited (Affluent) and Subsidiaries	British Virgin Islands (BVI)	100.00	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make) and Subsidiaries	- do -	100.00	100.00	SM City Jinjiang
Springfield Global Enterprises Limited	- do -	100.00	100.00	–
SM Land (China) Limited (SM Land China) and Subsidiaries	Hong Kong	100.00	100.00	SM City Suzhou and SM City Chongqing

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intracompany balances, transactions, income and expenses resulting from intracompany transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosures of contingent liabilities, at balance sheet date. However, uncertainty about the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

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

Operating Lease Commitments - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Rent income amounted to ₱25,902 million, ₱22,759 million and ₱19,993 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 21).

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

Rent expense amounted to ₱802 million, ₱589 million and ₱504 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 21).

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

Estimation of Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, average age of accounts and collection experience. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded costs and expenses and decrease current assets.

The carrying value of receivables amounted to ₱5,880 million and ₱4,708 million as at December 31, 2012 and 2011, respectively (see Note 9).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as period longer than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The carrying value of AFS investments amounted to ₱1,000 million as at December 31, 2012 and 2011 (see Note 10).

Estimation of Useful Lives of Investment Properties. The useful life of each of the Company's investment property 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 results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any investment property would increase the recorded costs and expenses and decrease investment properties.

There were no changes in the estimated useful lives of investment properties in 2012 and 2011.

Impairment of Nonfinancial Assets. The Company assesses at each balance sheet date whether there is an indication that investment properties may be impaired. The recoverable amount of the investment properties is the higher of the asset's fair value less costs to sell and its value in use. When the carrying amounts of the investment properties exceed their recoverable amounts, the investment properties are considered impaired and are written down to their recoverable amounts.

The net book value of investment properties amounted to ₱124,087 million and ₱107,836 million as at December 31, 2012 and 2011, respectively (see Note 12).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the succeeding periods. This projection is based on the Company's past and future results of operations.

Deferred tax assets amounted to ₱190 million and ₱254 million as at December 31, 2012 and 2011, respectively (see Note 18).

Pension Cost. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value in the consolidated balance sheets. Determining the fair value of financial assets and liabilities requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 23.

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

4. Summary of Significant Accounting and Financial Reporting Policies

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

The Company 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 balance sheet date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

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

Financial assets and liabilities may be designated by management at initial recognition as at 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.

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱869 million and ₱929 million as at December 31, 2012 and 2011, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱244 million and ₱238 million as at December 31, 2012 and 2011, respectively (see Note 23).

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. Loans and receivables are included in current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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 statements of income when the loans and receivables are derecognized and impaired, as well as through the amortization process.

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The aggregate carrying values of financial assets under this category amounted to ₱16,408 million and ₱13,875 million as at December 31, 2012 and 2011, respectively (see Note 23).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company 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 statements 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 12 months from balance sheet date and as noncurrent assets if maturity date is more than 12 months from balance sheet date.

The Company has no financial assets under this category as at December 31, 2012 and 2011.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. They 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 sheets. Changes in the fair value of such assets are reported as unrealized gain or loss on AFS investments recognized as other comprehensive income in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. Assets under this category are classified as current assets if management intends to sell these financial assets within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's investments in corporate notes. The carrying values of financial assets classified under this category amounted to ₱1,000 million as at December 31, 2012 and 2011 (see Note 23).

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 are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are the Company's loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The aggregate carrying values of financial liabilities under this category amounted to ₱74,311 million and ₱61,180 million as at December 31, 2012 and 2011, respectively (see Note 23).

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

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

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

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

Debt Issuance Costs
Debt issuance costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 23). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company's derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges.

Embedded Derivative. An embedded derivative is a component of a hybrid instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. 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 instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. 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 reassessment is required. The Company 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 flow on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 Company 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 Company 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, nor transferred control of the asset, the asset is recognized to the extent of the Company'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 the Company could be required to repay.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such 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 the consolidated statements of income.

Impairment of Financial Assets
The Company assesses at each balance sheet date 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. If there is objective evidence that an impairment loss on financial assets 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 asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income.

The Company first assesses whether objective evidence of impairment exists individually 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 a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of income under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Others - net" account.

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross in the consolidated balance sheets.

Business Combinations

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

In applying the pooling of interest method, the assets, liabilities and stockholders' equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the combinations had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

Acquisition of Non-controlling Interests

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

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are expenses paid in advance and recorded as assets before they are utilized.

Investment Properties

Investment properties represent land and land use rights, buildings, structures, equipment and improvements of the shopping malls and shopping mall complex under construction.

Investment properties, except land and shopping mall complex under construction, are measured initially at cost, including transaction costs, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Land is stated at cost less any impairment in value.

Shopping mall complex under construction is stated at cost and includes the cost of land, construction costs, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period, provided that the carrying amount does not exceed the amount realizable from the use or sale of the asset.

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

Land use rights	40-60 years
Buildings and improvements	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 each financial year-end.

Shopping mall complex under construction is not depreciated until such time that the relevant assets are completed and put into operational use.

When each major inspection is performed, the cost is recognized in the carrying amount of the investment properties as a replacement, if the recognition criteria are met.

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

Investment in Associate
Investment in associate is accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Company's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Impairment of Nonfinancial Assets
The carrying value of investment properties and other nonfinancial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of investment properties and other nonfinancial assets 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 less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses 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 profit or loss. After such a reversal, the depreciation and amortization charges are 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. When shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated earnings, net of dividends declared.

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

Revenue Recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes. The following specific recognition criteria must also be met before revenue is recognized:

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

Cinema Ticket Sales, Amusement Income and Other Revenue. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

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

Dividend. Revenue is recognized when the right to receive the payment is established.

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

Costs and Expenses
Operating and interest expenses are recognized as incurred.

Pension Cost
The Parent Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous balance sheet date, divided by the expected average remaining working lives of active plan members.

The amount recognized as net pension asset or liability is the net of the present value of the defined benefit obligation at balance sheet date, plus any actuarial gains (less any actuarial losses) not recognized minus past service cost not yet recognized minus the fair value of plan assets at balance sheet date out of which the obligations are to be settled directly.

<u>Foreign Currency-denominated Transactions</u>
Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

<u>Foreign Currency Translations</u>
The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at the balance sheet 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 statements of changes in stockholders' equity under "Cumulative translation adjustment" account. On disposal of a foreign entity, the deferred cumulative amount of exchange differences recognized in stockholders' equity relating to that particular foreign operation is recognized in profit or loss.

<u>Leases</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. 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 rent income. Contingent rents are recognized as revenue in the period in which they are earned.

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

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

<u>Borrowing Costs</u>
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized 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. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds used to finance the shopping mall complex.

<u>Taxes</u>

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

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

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in stockholders' equity.

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.

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and other current liabilities" accounts in the consolidated balance sheets.

<u>Basic/Diluted Earnings Per Share (EPS)</u>
Basic/diluted EPS is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year, with retroactive adjustments for any stock dividends declared.

<u>Geographical Segment</u>
The Company's business of shopping mall development and operations is organized and managed separately according to geographical areas where the Company operates, namely the Philippines and China. This is the basis upon which the Company reports its primary segment information presented in Note 5 to the consolidated financial statements.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Company's financial position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Segment Information

For management purposes, operating segment is monitored through geographical location as the Company's risks and rates of return are affected predominantly by differences in economic and political environments where they operate. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

As at December 31, 2012, the Company owns forty-six (46) shopping malls in the Philippines and five shopping malls in China.

Management 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 operating profit or loss in the consolidated financial statements.

Inter-segment Transactions
Transfer prices between geographical segments are set on an arm's length basis similar to transactions with related parties. Such transfers are eliminated in consolidation.

Geographical Segment Data

	2012			
	Philippines	**China**	**Eliminations**	**Consolidated**
		(In Thousands)		
Revenue	**₱28,189,308**	**₱2,537,001**	**₱–**	**₱30,726,309**
Segment results:				
Income before income tax	**₱12,874,530**	**₱1,414,176**	**₱–**	**₱14,288,706**
Provision for income tax	**3,055,659**	**310,901**	**–**	**3,366,560**
Net income	**₱9,818,871**	**₱1,103,275**	**₱–**	**₱10,922,146**
Net income attributable to:				
Equity holders of the parent	**₱9,426,680**	**₱1,103,275**	**₱–**	**₱10,529,955**
Non-controlling interests	**392,191**	**–**	**–**	**392,191**
Segment profit	**₱15,441,507**	**₱1,289,652**	**₱–**	**₱16,731,159**
Segment assets	**₱134,054,768**	**₱27,915,625**	**(₱13,840,500)**	**₱148,129,893**
Segment liabilities	**₱70,155,088**	**₱20,873,312**	**(₱13,798,253)**	**₱77,230,147**
Other information:				
Depreciation and amortization	**₱3,496,435**	**₱459,207**	**₱–**	**₱3,955,642**
Capital expenditures	**16,275,265**	**4,839,667**	**–**	**21,114,932**

	2011			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱24,850,809	₱2,046,646	₱–	₱26,897,455
Segment results:				
Income before income tax	₱11,107,990	₱1,112,401	₱–	₱12,220,391
Provision for income tax	2,614,818	223,351	–	2,838,169
Net income	₱8,493,172	₱889,050	₱–	₱9,382,222
Net income attributable to:				
Equity holders of the parent	₱8,166,946	₱889,050	₱–	₱9,055,996
Non-controlling interests	326,226	–	–	326,226
Segment profit	₱13,620,404	₱999,555	₱–	₱14,619,959
Segment assets	₱114,376,213	₱23,894,033	(₱9,945,935)	₱128,324,311
Segment liabilities	₱56,254,710	₱17,626,483	(₱9,903,688)	₱63,977,505
Other information:				
Depreciation and amortization	₱3,365,603	₱464,368	₱–	₱3,829,971
Capital expenditures	13,657,420	2,892,864	–	16,550,284

	2010			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱22,303,583	₱1,412,349	₱–	₱23,715,932
Segment results:				
Income before income tax	₱10,269,711	₱527,137	₱–	₱10,796,848
Provision for income tax	2,558,041	98,674	–	2,656,715
Net income	₱7,711,670	₱428,463	₱–	₱8,140,133
Net income attributable to:				
Equity holders of the parent	₱7,427,885	₱428,463	₱–	₱7,856,348
Non-controlling interests	283,785	–	–	283,785
Segment profit	₱11,859,018	₱585,532	₱–	₱12,444,550

	2010			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Segment assets	₱105,595,830	₱20,898,769	(₱10,361,155)	₱116,133,444
Segment liabilities	₱53,896,588	₱15,803,227	(₱10,318,908)	₱59,380,907
Other information:				
Depreciation and amortization	₱3,088,745	₱412,439	₱–	₱3,501,184
Capital expenditures	8,540,941	2,680,110	–	11,221,051

For the years ended December 31, 2012, 2011 and 2010, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customer.

6. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand and in banks (see Note 20)	**₱608,689,838**	₱2,029,711,118
Temporary investments (see Note 20)	**9,098,167,523**	6,260,504,921
	₱9,706,857,361	₱8,290,216,039

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective temporary investment rates.

Interest income earned from cash in banks and temporary investments amounted to ₱268 million, ₱208 million and ₱127 million for the years ended December 31, 2012, 2011 and 2010, respectively.

7. Short-term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱821 million and ₱877 million as at December 31, 2012 and 2011, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated anytime by the Company.

Interest income earned from short-term investments amounted to ₱27 million for the year ended December 31, 2012 and ₱28 million each for the years ended December 31, 2011 and 2010.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱759 million and ₱813 million as at December 31, 2012 and 2011, respectively, with yields ranging from 4.90% to 8.64% in 2012 and 3.18% to 12.29% in 2011. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2014 to 2017.

Investments held for trading have mark-to-market loss amounting to ₱1 million for the year ended December 31, 2012, and mark-to-market gain amounting to ₱13 million and ₱14 million for the years ended December 31, 2011 and 2010, respectively, the amounts of which are included under "Others - net" account in the consolidated statements of income. Cumulative unrealized mark-to-market gain amounted to ₱25 million and ₱28 million as at December 31, 2012 and 2011, respectively.

Interest income earned from investments held for trading amounted to ₱43 million, ₱42 million and ₱13 million for the years ended December 31, 2012, 2011 and 2010, respectively.

9. Receivables

This account consists of:

	2012	2011
Rent:		
Third parties	**₱2,259,198,897**	₱2,202,631,655
Related parties (see Note 20)	**1,885,424,402**	1,587,324,781
Advances to suppliers	**636,116,922**	578,440,037
Advances to related parties (see Note 20)	**471,660,550**	–
Receivable from a co-investor	**246,078,722**	–
Accrued interest (see Note 20)	**47,123,072**	45,556,109
Others	**334,479,315**	294,081,144
	₱5,880,081,880	₱4,708,033,726

Rent receivables generally have terms of 30-90 days.

Receivable from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 13).

Advances to suppliers, accrued interest and other receivables are normally collected throughout the financial year.

The aging analysis of receivables follows:

	2012	2011
Neither past due nor impaired	**₱5,803,169,481**	₱4,611,021,460
Past due but not impaired:		
91-120 days	**25,227,376**	28,964,032
Over 120 days	**51,685,023**	68,048,234
	₱5,880,081,880	₱4,708,033,726

Receivables are assessed by the Company's management as not impaired, good and collectible.

10. Available-for-Sale Investments

This account consists of investments in corporate notes issued by BDO amounting to ₱1,000 million as at December 31, 2012 and 2011 with fixed interest rate of 6.80% (see Note 20). Investments in corporate notes are intended to meet short-term cash requirements.

Interest income earned from AFS investments amounted to ₱68 million each for the years ended December 31, 2012, 2011 and 2010.

The movements in net unrealized gain on AFS investments are as follows:

	2012	2011
Balance at beginning of year	**₱–**	₱3,745,323
Loss due to changes in fair value of AFS investments	**–**	(3,745,323)
Balance at end of year	**₱–**	₱–

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2012	2011
Prepaid expenses	**₱505,182,400**	₱366,033,201
Input taxes	**455,205,277**	591,293,627
Advances to contractors (see Note 12)	**294,261,122**	151,283,101
Others	**185,540,340**	167,842,531
	₱1,440,189,139	₱1,276,452,460

Prepaid expenses mainly consist of prepayments for insurance and real property taxes.

12. Investment Properties

This account consists of:

	2012				
	Land and Land Use Rights	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Shopping Mall Complex Under Construction**	**Total**
Cost					
Balance at beginning of year	**₱22,402,878,158**	**₱80,235,045,499**	**₱16,950,695,663**	**₱15,546,814,568**	**₱135,135,433,888**
Additions	**3,821,792,513**	**5,526,303,910**	**2,672,922,112**	**9,131,389,005**	**21,152,407,540**
Transfers	**258,453,905**	**7,692,439,017**	**1,261,365,355**	**(9,212,258,277)**	**–**
Translation adjustments	**(159,893,189)**	**(611,090,730)**	**(71,571,832)**	**(220,612,215)**	**(1,063,167,966)**
Balance at end of year	**26,323,231,387**	**92,842,697,696**	**20,813,411,298**	**15,245,333,081**	**155,224,673,462**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**437,595,529**	**17,718,731,839**	**9,142,890,393**	**–**	**27,299,217,761**
Depreciation and amortization	**56,559,550**	**2,565,080,499**	**1,334,001,550**	**–**	**3,955,641,599**
Translation adjustments	**(10,232,425)**	**(76,254,372)**	**(31,138,899)**	**–**	**(117,625,696)**
Balance at end of year	**483,922,654**	**20,207,557,966**	**10,445,753,044**	**–**	**31,137,233,664**
Net Book Value	**₱25,839,308,733**	**₱72,635,139,730**	**₱10,367,658,254**	**₱15,245,333,081**	**₱124,087,439,798**

	2011				
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
Cost					
Balance at beginning of year	₱19,524,757,159	₱72,278,698,603	₱15,707,347,346	₱9,817,096,213	₱117,327,899,321
Additions	2,093,747,242	1,625,733,325	626,763,170	12,669,351,155	17,015,594,892
Transfers	631,214,391	5,942,660,350	552,191,221	(7,126,065,962)	–
Translation adjustments	153,159,366	387,953,221	64,393,926	186,433,162	791,939,675
Balance at end of year	22,402,878,158	80,235,045,499	16,950,695,663	15,546,814,568	135,135,433,888
Accumulated Depreciation and Amortization					
Balance at beginning of year	401,895,611	15,111,732,471	7,873,969,685	–	23,387,597,767
Depreciation and amortization	27,969,238	2,547,427,337	1,254,574,591	–	3,829,971,166
Translation adjustments	7,730,680	59,572,031	14,346,117	–	81,648,828
Balance at end of year	437,595,529	17,718,731,839	9,142,890,393	–	27,299,217,761
Net Book Value	₱21,965,282,629	₱62,516,313,660	₱7,807,805,270	₱15,546,814,568	₱107,836,216,127

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱447 million and ₱474 million as at December 31, 2012 and 2011, respectively, and a fair value of ₱13,531 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent 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 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties - net" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱4,852 million and ₱3,896 million as at December 31, 2012 and 2011, respectively, and estimated fair value of ₱10,874 million and ₱13,541 million as at December 31, 2012 and 2011, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

Rent income from investment properties amounted to ₱25,902 million, ₱22,759 million and ₱19,993 million for the years ended December 31, 2012, 2011 and 2010, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱13,995 million, ₱12,277 million and₱11,271 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The fair value of investment properties amounted to ₱218,071 million as at July 31, 2010 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	11.75%
Capitalization rate	8.00%
Average growth rate	6.00%

While fair value of the investment properties was not determined as at December 31, 2012, the Company's management believes that there were no conditions present in 2012 and 2011 that would significantly reduce the fair value of the investment properties from that determined in 2010.

The Company's management believes that the carrying values of the newly opened malls after the date of the valuation approximate their fair values.

In 2012, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF Parañaque, SM Seaside City Cebu, SM Tianjin and SM Zibo, and the ongoing expansions and renovations of SM City Bacolod, SM City Clark, SM City Dasmariñas, SM City Sta. Rosa and SM Megamall.

In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City Consolacion Cebu, SM City General Santos, SM City Olongapo, SM City San Fernando, SM Lanang Premier, SM City Chongqing, SM Tianjin and SM Zibo.

Shopping mall complex under construction includes cost of land amounting to ₱1,615 million and ₱1,575 million as at December 31, 2012 and 2011, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱53,965 million and ₱39,240 million as at December 31, 2012 and 2011, 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 ₱14,393 million and ₱10,268 million as at December 31, 2012 and 2011, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱114 million and ₱54 million as at December 31, 2012 and 2011, respectively. Capitalization rates used were 6.13% and 5.71% as at December 31, 2012 and 2011, respectively.

13. Other Noncurrent Assets

This account consists of:

	2012	2011
Bonds and deposits	**₱2,519,247,536**	₱2,609,489,374
Investment in associate	**252,059,209**	–
Others	**1,363,276,073**	544,398,558
	₱4,134,582,818	₱3,153,887,932

Bonds and deposits mainly consist of deposits to contractors and suppliers to be applied throughout construction and advances and deposits paid for leased properties to be applied at the last term of the lease.

On April 10, 2012, TRC entered into Memorandum of Agreement with Trendlink Holdings Limited (THL), a third party, wherein Fei Hua Real Estate Company (FHREC), a 100% subsidiary of TRC, issued new shares to THL equivalent to 50% equity interest. In addition, THL undertakes to pay TRC amounting to ₱22 million (¥3 million) for the difference between cash invested and 50% equity of FHREC and ₱224 million (¥34 million) representing the difference between the current market value and cost of the investment properties of FHREC. FHREC was incorporated in China. TRC is a wholly owned subsidiary of SM Land China.

As at December 31, 2012, TRC owns 50% equity interest in FHREC. Management assessed that the Company lost control over FHREC by virtue of agreement with the shareholders of THL. Consequently, FHREC became an associate of the Company. Gain on dilution of equity interest over FHREC as a result of issuance of new shares to THL, included under "Others - net" account in the consolidated statements of income, amounted to ₱224 million in 2012.

As at December 31, 2012, the aggregated assets and liabilities of FHREC amounted to ₱1,034 million and ₱560 million, respectively.

14. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from a bank amounting to ₱800 million as at December 31, 2012. These loans bear interest rate of 3.25% and will mature in 2013.

Interest expense incurred from loans payable amounted to ₱1 million for the year ended December 31, 2012.

15. Accounts Payable and Other Current Liabilities

This account consists of:

	2012	2011
Trade	**₱5,863,568,314**	₱4,914,654,211
Accrued utilities expense	**830,320,247**	737,207,458
Accrued operating expenses:		
Third parties	**2,121,692,671**	2,155,500,940
Related parties (see Note 20)	**121,321,472**	102,408,081
Liability for purchased land	**1,313,471,783**	1,304,436,777
Taxes payable	**316,453,310**	203,919,456
Accrued interest (see Notes 16 and 20)	**312,103,146**	314,938,946
Others	**519,589,895**	417,212,254
	₱11,398,520,838	₱10,150,278,123

Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.

Accrued operating expenses mainly pertain to accrued administrative expenses such as security and janitorial, accrued management fees and rent payables which are normally settled throughout the financial year.

Liability for purchased land, taxes, accrued interest and other payables are expected to be settled throughout the financial year.

16. Long-term Debt

This account consists of:

	2012	2011
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱10,896,961,563**	₱6,101,532,979
Five-year, three-year and two-year bilateral loans	**1,021,242,099**	1,084,929,299
Other U.S. dollar loans	**2,438,112,216**	3,030,778,585
Philippine peso-denominated loans:		
Five-year and ten-year fixed and floating rate notes	**7,442,919,136**	–
Five-year, seven-year and ten-year corporate notes	**6,823,838,758**	6,884,170,665
Five-year, seven-year and ten-year fixed and floating rate notes	**4,966,460,223**	–
Five-year floating rate notes	**4,920,827,931**	4,962,413,247
Five-year and ten-year corporate notes	**1,092,151,201**	4,960,399,612
Five-year, seven-year and ten-year fixed rate notes	**795,341,665**	1,985,674,872
Other bank loans	**7,159,490,419**	7,161,770,104
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**1,871,134,000**	2,177,495,800
Three-year loan	**1,111,112,318**	1,299,441,045
Five-year loan	**401,239,650**	422,323,230
Eight-year loan	**–**	277,388,000
Philippine peso-denominated loans -		
Five-year bilateral loan	**497,991,424**	544,291,291
	51,438,822,603	40,892,608,729
Less current portion	**1,791,703,848**	799,086,409
	₱49,647,118,755	₱40,093,522,320

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270 million and US$145 million unsecured loan obtained as at December 31, 2012 and 2011, respectively, from a US$270 million facility. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016 (see Notes 22 and 23).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2010 (see Notes 22 and 23). The remaining balance of US$25 million will mature on November 20, 2013.

Other U.S. Dollar Loans
This account consists of the following:

- US$10 million out of US$50 million five-year bilateral unsecured loan obtained on December 7, 2012. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017 (see Note 22).

- US$30 million and a US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 22 and 23).

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013. The loan was prepaid on January 13, 2012. The related unamortized debt issuance costs charged to expense amounted to ₱25 million in 2012 (see Notes 22 and 23).

- US$20 million three-year bilateral unsecured loan obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012. The loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2 million in 2011 (see Note 22).

Philippine Peso-denominated Five-Year and Ten-Year Floating and Fixed Rate Notes
This represents a five-year and ten-year floating and fixed rate notes obtained on June 19, 2012 amounting to ₱3,450 million and ₱1,000 million for the floating and ₱680 million and ₱2,370 million for the fixed, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively (see Note 22).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 22).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtained on January 12, 2012 amounting to ₱200 million, ₱1,012 million, ₱133 million, and ₱3,655 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively (see Note 22).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 22).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively. The Company prepaid the ₱200 million and ₱3,700 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17 million in 2012 (see Note 22).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. The loans amounting to ₱1,000 million and ₱1,200 were prepaid on June 17, 2011 and 2012, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱5 million and ₱4 million in 2012 and 2011, respectively (see Notes 22 and 23).

Other Bank Loans
This account consists of the following:

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015 (see Notes 22 and 23).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 22).

- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million. The loans bear an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 and October 16, 2012, respectively. The Company prepaid the ₱830 million loan on April 13, 2011, the related unamortized debt issuance costs charged to expense amounted to ₱2 million in 2011 (see Note 22).

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin. The loan was prepaid on October 17, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011(see Notes 22 and 23).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%. The loan was prepaid on March 3, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Note 22).

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 22).

All the above Philippine peso-denominated loans of the Parent Company are unsecured.

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% and 6.21% in 2012 and 2011, respectively (see Note 22).

China Yuan Renminbi-denominated Three-Year Loan
This represents a three-year loan obtained on March 28, 2011 amounting to ¥250 million to finance the construction of shopping malls. Partial drawdown totaling ¥169 million was made as at December 31, 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears interest rate of 6.20% and 6.65% in 2012 and 2011, respectively (see Note 22).

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made as at December 31, 2012. The loan is payable in 2015. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% and 6.20% in 2012 and 2011, respectively (see Note 22).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.35% in 2012 and 2011 (see Note 22).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 12).

Philippine Peso-denominated Five-Year Bilateral Loans
This account consists of the following:

- Five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱16 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

All the above Philippine peso-denominated loans of the subsidiaries are unsecured.

The re-pricing frequencies of floating rate loans range from three to six months.

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 and debt service coverage ratio of not less than 1.10:1.00) and material change in ownership or control. As at December 31, 2012 and 2011, the Company is in compliance with the terms of its loan covenants.

Debt Issuance Costs
The movements in unamortized debt issuance costs are as follows:

	2012	2011
Balance at beginning of year	**₱457,844,346**	₱263,713,789
Additions	**112,637,407**	393,909,193
Amortization	**(163,068,388)**	(199,778,636)
Balance at end of year	**₱407,413,365**	₱457,844,346

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

Repayment Schedule
Repayments of long-term debt are scheduled as follows:

Year	Amount
2013	₱1,791,703,848
2014	5,726,792,470
2015	11,486,039,650
2016	17,717,160,000
2017	5,667,885,000
2018 to 2022	9,456,655,000
	₱51,846,235,968

17. Stockholders' Equity

Capital Stock
The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The movements of the capital stock of the Company are as follows:

	2012	2011
Number of shares at beginning of year	**13,917,800,067**	13,917,800,067
Issuance during the year through stock dividends	**3,474,734,693**	–
Number of shares at end of year	**17,392,534,760**	13,917,800,067

On April 24, 2012, the BOD and stockholders approved the declaration of stock dividends equivalent to 25% based on the par value per share in favor of stockholders of record as at May 24, 2012, payable on or before June 20, 2012. Accordingly, retained earnings amounting to ₱3,474 million were transferred to capital stock.

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

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50

The Company declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,493 and 2,567 as at December 31, 2012 and 2011, respectively.

Additional Paid-in Capital
On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired additional 24,376,743 FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such non-controlling interests amounting to ₱3,384 million is accounted for as an equity transaction.

Accordingly, the carrying amounts of SMPH's investment and the share of non-controlling interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

International Placement of Shares
On October 14, 2010, the Parent Company has undergone an international placement of its shares to raise capital to finance strategic expansion programs in the Philippines and in China as well as for general working capital.

In connection with the international placement of its shares, the Parent Company engaged into a Placement Agreement with SM Land (the Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners") on October 14, 2010. As stated in the Placement Agreement, SM Land shall sell its 570 million SMPH Common Shares (the "Sale Shares") with a par value of ₱1 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

Contemporaneous with the signing of the Placement Agreement, the Parent Company likewise entered into a Subscription Agreement with SM Land. As stated in the Subscription Agreement, SM Land will not directly receive any proceeds from the International Placement, but instead SM Land has conditionally agreed to subscribe for, and the Parent Company has conditionally agreed to issue, out of its authorized but unissued capital stock, new SMPH common shares in an amount equal to the aggregate number of the Sale Shares sold by SM Land in the International Placement at a subscription price of ₱11.50 per share, which is equal to the Offer Price of the Sale Shares.

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 570 million SMPH common shares. Likewise, SM Land subscribed for and the Parent Company issued to SM Land the same number of new SMPH common shares. The proceeds of ₱6,414 million, net of transaction costs capitalized, add up to the capital of the Parent Company.

Cumulative Translation Adjustment and Unrealized Loss on Available-for-Sale Investments
The tax effects relating to each component of other comprehensive income are as follows:

	2012			2011		
	Before Tax Amount	**Tax Benefit**	**Net-of-tax Amount**	Before Tax Amount	Tax Benefit	Net-of-tax Amount
Cumulative translation adjustment	**(₱328,512,695)**	**₱–**	**(₱328,512,695)**	₱282,958,497	₱–	₱282,958,497
Unrealized loss on AFS investments	**–**	**–**	**–**	(4,161,471)	416,148	(3,745,323)
	(₱328,512,695)	**₱–**	**(₱328,512,695)**	₱278,797,026	₱416,148	₱279,213,174

Retained Earnings
On April 24, 2012 and March 22, 2002, the BOD approved the appropriation of retained earnings amounting to ₱20,000 million and ₱7,000 million, respectively, for future corporate expansion programs. As at December 31, 2012 and 2011, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million and ₱7,000 million, respectively.

As at December 31, 2012, included in shopping mall complex under construction are SM Aura Premier, SM City BF Parañaque, SM Seaside City Cebu, SM Tianjin and SM Zibo, and the ongoing expansions and renovations of SM City Bacolod, SM City Clark, SM City Dasmariñas, SM City Sta. Rosa and SM Megamall.

Over the next five years, the Company expects to incur around ₱25,000 million to ₱35,000 million for its capital expenditures.

The retained earnings account is restricted for the payment of dividends to the extent of ₱7,895 million and ₱5,214 million as at December 31, 2012 and 2011, respectively, representing the cost of shares held in treasury (₱101 million as at December 31, 2012 and 2011) and accumulated equity in net earnings of the subsidiaries totaling ₱7,794 million and ₱5,113 million as at December 31, 2012 and 2011, respectively. The accumulated equity in net earnings of the subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

Treasury Stock
Treasury stock, totaling 18,857,000 shares, is stated at acquisition cost.

18. Income Tax

The components of deferred tax assets and liabilities are as follows:

	2012	2011
Deferred tax assets -		
Unrealized foreign exchange losses and others	**₱190,463,028**	₱254,132,999
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,278,194,418**	₱1,258,514,789

On November 26, 2008, the Bureau of Internal Revenue issued Revenue Regulations No. 16-2008 which implemented the provisions of Republic Act No. 9504 on optional standard deduction (OSD). This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the years ended December 31, 2012, 2011 and 2010, the Company, except SPC and FLVGI in 2010, opted to use OSD in computing their taxable income.

The reconciliation of statutory tax rate to effective tax rates are as follows:

	2012	2011	2010
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(0.9)**	(0.9)	(0.7)
Change in enacted tax rates and others	**(5.5)**	(5.9)	(4.7)
Effective tax rates	**23.6%**	23.2%	24.6%

19. Pension Cost

The Company is a participant in SM Corporate Management Companies Employer Retirement Plan (the Retirement Plan) covering all regular full-time employees. The Retirement Plan is in the form of a trust administered by a trustee bank.

The following tables summarize the components of the Company's pension plan:

Net Pension Cost

	2012	2011	2010
Current service cost	**₱7,242,901**	₱4,987,201	₱2,904,989
Interest cost on benefit obligation	**5,893,155**	4,290,823	3,690,383
Expected return on plan assets	**(4,685,470)**	(3,606,172)	(2,282,117)
Net actuarial loss recognized	**934,979**	398,518	5,811,580
Effect on asset limit	**–**	–	1,950
Net pension cost	**₱9,385,565**	₱6,070,370	₱10,126,785
Actual return on plan assets	**₱11,817,977**	₱4,908,807	₱8,559,473

Net Pension Asset

	2012	2011
Defined benefit obligation	**₱133,914,030**	₱83,590,852
Fair value of plan assets	**(97,021,049)**	(70,979,267)
Unfunded obligation	**36,892,981**	12,611,585
Unrecognized net actuarial losses	**(64,816,651)**	(35,473,482)
Net pension asset	**(₱27,923,670)**	(₱22,861,897)

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

	2012	2011	2010
Balance at beginning of year	**₱83,590,852**	₱54,108,736	₱32,745,187
Current service cost	**7,242,901**	4,987,201	2,904,989
Interest cost on benefit obligation	**5,893,155**	4,290,823	3,690,383
Benefits paid	**(223,533)**	–	(72,195)
Actuarial losses on obligation	**37,410,655**	20,204,092	11,796,920
Transfer to the plan	**–**	–	3,043,452
Balance at end of year	**₱133,914,030**	₱83,590,852	₱54,108,736

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

	2012	2011	2010
Balance at beginning of year	**₱70,979,267**	₱54,135,272	₱30,494,754
Expected return on plan assets	**4,685,470**	3,606,172	2,282,117
Benefits paid	**(223,533)**	–	(72,195)
Contributions	**14,447,338**	11,935,188	12,109,788
Actuarial gains	**7,132,507**	1,302,635	6,277,356
Transfer to the plan	**–**	–	3,043,452
Balance at end of year	**₱97,021,049**	₱70,979,267	₱54,135,272

The Company expects to contribute ₱15 million to its defined benefit pension plan in 2013.

The carrying amounts and fair values of the plan assets as at December 31, 2012 are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	₱5,903,287	₱5,903,287
Investments in:		
Debt and other securities	10,670,837	10,670,837
Common trust funds	38,332,750	38,332,750
Equity securities	3,193,021	3,193,021
Government securities	38,181,958	38,181,958
Other financial assets	739,196	739,196
	₱97,021,049	₱97,021,049

The plan assets consist of the following:

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in debt and other securities consists of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 5.45% to 8.46% and have maturities ranging from 2014 to 2022;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in equity securities consist of listed and unlisted equity securities;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 5.00% to 11.14% and have maturities ranging from 2013 to 2037; and
- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

As at and for the year ended December 31, 2012, the following table summarizes the outstanding balances and transactions of the Retirement Plan with BDO, an affiliate:

	Amount
Cash and cash equivalents	₱5,903,287
Interest income on cash and cash equivalents	83,291
Investments in common trust funds	38,332,750
Gains from investments in common trust funds	8,555,366

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

	2012	2011	2010
Discount rate	**6.1%**	7.1%	7.9%
Expected rate of return on plan assets	**6.0%**	6.0%	6.0%
Future salary increases	**11.0%**	10.0%	11.0%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period within which the obligation is to be settled.

The amounts for the current and previous four years are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligation	**₱133,914,030**	₱83,590,852	₱54,108,736	₱32,745,187	₱18,098,581
Plan assets	**97,021,049**	70,979,267	54,135,272	30,494,754	15,807,447
Deficit (excess plan assets)	**36,892,981**	12,611,585	(26,536)	2,250,433	2,291,134
Experience adjustments on plan liabilities	**(2,479,093)**	18,221,688	(5,496,062)	9,761,099	(1,426,249)
Experience adjustment on plan assets	**7,132,507**	1,302,635	6,277,356	1,836,326	(1,197,299)

20. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individuals or corporate entities.

The significant related party transactions entered into by the Company with its ultimate parent company and affiliates and the amounts included in the consolidated financial statements with respect to such transactions follow:

Related Party	Relationship	Year	Rent Income (see Note 21)	Rent Receivables (see Note 9)	Rent Expense (see Note 21)	Rent Payables (see Note 15)	Management Fees	Accrued Management Fees (see Note 15)	Advances Made During the Year	Advances to Related Parties (see Note 9)	Interest Income	Accrued Interest Receivable (see Note 9)	Interest Expense	Accrued Interest Payables (see Note 15)	Cash and Cash Equivalents (see Note 6)	Short-term Investments (see Note 7)	Investments Held for Trading (see Note 8)	AFS Investments (see Note 10)	Long-term Debt (see Note 16)
								(In Thousands)											
SMIC	Parent	**2012**	**₱–**	**₱–**	**₱48,732**	**₱4,579**	**₱–**	**₱–**	**₱–**	**₱–**	**₱18,493**	**₱7,294**	**₱16,944**	**₱–**	**₱–**	**₱–**	**₱299,957**	**₱–**	**₱–**
		2011	–	–	45,273	4,579	–	–	–	–	16,594	7,295	58,678	12,382	–	–	355,458	–	697,900
		2010	–	–	41,744	–	–	–	–	–	–	–	205,628	–	–	–	–	–	–
SM Retail Group and SM Banking Group	Affiliates	**2012**	**8,440,077**	**1,885,424**	**–**	**–**	**–**	**–**	**–**	**–**	**301,775**	**26,386**	**–**	**–**	**5,258,955**	**821,000**	**–**	**1,000,000**	**–**
		2011	7,279,897	1,587,325	–	–	–	–	–	–	284,437	34,000	6,791	–	4,190,969	876,800	–	1,000,000	–
		2010	6,664,015	–	–	–	–	–	–	–	215,305	–	42,813	–	–	–	–	–	–
SM Land	Affiliate	**2012**	**–**	**–**	**201,526**	**16,847**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2011	–	–	181,083	13,514	–	–	–	–	–	–	–	–	–	–	–	–	–
		2010	–	–	163,605	–	–	–	–	–	–	–	–	–	–	–	–	–	–
SM Management Group	Affiliates	**2012**	**–**	**–**	**–**	**–**	**860,535**	**99,895**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2011	–	–	–	–	794,923	84,314	–	–	–	–	–	–	–	–	–	–	–
		2010	–	–	–	–	647,343	–	–	–	–	–	–	–	–	–	–	–	–
SM Laiya/FHREC	Affiliates	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**471,661**	**471,661**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2012	**₱8,440,077**	**₱1,885,424**	**₱250,258**	**₱21,426**	**₱860,535**	**₱99,895**	**₱471,661**	**₱471,661**	**₱320,268**	**₱33,680**	**₱16,944**	**₱–**	**₱5,258,955**	**₱821,000**	**₱299,957**	**₱1,000,000**	**₱–**
		2011	7,279,897	1,587,325	226,356	18,093	794,923	84,314	–	–	301,031	41,295	65,469	12,382	4,190,969	876,800	355,458	1,000,000	697,900
		2010	6,664,015	–	205,349	–	647,343	–	–	–	215,305	–	248,441	–	–	–	–	–	–

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

The above transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. As at December 31, 2012 and 2011, outstanding balances at year-end are unsecured, noninterest-bearing, generally settled within 30 to 90 days and settlement occurs in cash except cash and cash equivalents, short-term investments, investments held for trading, AFS investments and long-term debt. For the terms and conditions of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and long-term debt, please refer to Notes 6, 7, 8, 10 and 16, respectively.

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2012, 2011 and 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Below are the nature of the transactions with related parties:

<u>SMIC</u>
The Company leases land and maintains certain investments held for trading and long-term debt. The lease of land is for a period of 50 years, renewable upon mutual agreement of the parties. The Company pays a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher.

<u>SM Retail Group and SM Banking Group</u>
The Company leases out its mall spaces and maintains certain bank accounts, short-term investments, investments held for trading and AFS investments.

<u>SM Land</u>
The Company leases land where one of its malls is located for a period of 50 years, renewable upon mutual agreement of the parties. The Company pays a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher.

SM Management Group
The Company pays management fees to its affiliates, Shopping Center Management Corporation, West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls.

SM China Companies
In 2012, SM City Xiamen entered into an offshore loan agreement with SM Laiya (SM Department Store in China). The loan is unsecured and bears an interest rate of 5.6% with maturity in March 2013. Also, SM China Companies provide noninterest-bearing cash advances to FHREC, an associate.

The SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 158,727 square meters, 19,952 square meters and 33,440 square meters, respectively, as at December 31, 2012 and 2011. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.

Key Management Compensation
The total compensation paid to key management personnel of the Company amounted to ₱36 million, ₱32 million and ₱28 million in 2012, 2011 and 2010, respectively. No special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

21. Lease Agreements

The Company's lease agreements with its tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated with reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Rent income amounted to ₱25,902 million, ₱22,759 million and ₱19,993 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company also leases certain parcels of land where some of its malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rent payments are generally computed based on a certain percentage of the Company's gross rent income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases as at December 31 are as follows:

	2012	2011
Within one year	**₱530,659,607**	₱524,651,330
After one year but not more than five years	**2,252,319,501**	2,198,070,538
After five years	**26,707,806,776**	27,292,715,346
	₱29,490,785,884	₱30,015,437,214

Rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱802 million, ₱589 million and ₱504 million for the years ended December 31, 2012, 2011 and 2010, respectively.

22. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, short-term investments, investments held for trading, accrued interest and other receivables, AFS investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as rent receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 23).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Interest Rate Risk
The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. 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. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 6, 8, 10 and 16.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2012 and 2011, after taking into account the effect of interest rate swaps, approximately 45% and 55%, respectively, of the Company's long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 23).

Interest Rate Risk Table

The Company's long-term debt, presented by maturity profile, are as follows:

2012

	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	**₱20,000,000**	**₱20,000,000**	**₱1,097,300,000**	**₱8,660,000**	**₱57,485,000**	**₱1,856,555,000**	**₱3,060,000,000**	**(₱18,180,582)**	**₱3,041,819,418**
Interest rate	**5.79%–6.65%**	**5.79%–6.65%**	**5.79%–6.65%**	**5.79%–6.65%**	**5.89%–6.65%**	**5.89%–10.11%**			
Philippine peso-denominated fixed rate notes	**₱78,500,000**	**₱78,500,000**	**₱78,500,000**	**₱78,500,000**	**₱1,685,900,000**	**₱6,650,100,000**	**8,650,000,000**	**(60,069,406)**	**8,589,930,594**
Interest rate	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-9.85%**			
Other bank loans	**₱–**	**₱–**	**₱–**	**₱1,200,000,000**	**₱–**	**₱–**	**1,200,000,000**	**(5,187,300)**	**1,194,812,700**
Interest rate				**9.75%**					
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$–**	**$270,000,000**	**$–**	**$–**	**11,083,500,000**	**(186,538,437)**	**10,896,961,563**
Interest rate				**LIBOR+spread**					
U.S. dollar-denominated bilateral loans	**$25,000,000**	**$–**	**$–**	**$–**	**$–**	**$–**	**1,026,250,000**	**(5,007,901)**	**1,021,242,099**
Interest rate	**LIBOR+spread**								
Other U.S. dollar loans	**$–**	**$–**	**$50,000,000**	**$–**	**$10,000,000**	**$–**	**2,463,000,000**	**(24,887,784)**	**2,438,112,216**
Interest rate			**LIBOR+spread**		**LIBOR+spread**				
Philippine peso-denominated corporate notes	**₱50,000,000**	**₱50,000,000**	**₱4,800,000,000**	**₱–**	**₱–**	**₱–**	**4,900,000,000**	**(25,829,459)**	**4,874,170,541**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
Philippine peso-denominated floating rate notes	**₱96,500,000**	**₱96,500,000**	**₱96,500,000**	**₱4,846,500,000**	**₱3,514,000,000**	**₱950,000,000**	**9,600,000,000**	**(64,381,639)**	**9,535,618,361**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**			
Philippine peso-denominated five-year bilateral loans	**₱–**	**₱–**	**₱–**	**₱500,000,000**	**₱–**	**₱–**	**500,000,000**	**(2,008,576)**	**497,991,424**
Interest rate				**PDST-F+margin%**					
Other bank loans	**₱10,000,000**	**₱3,010,000,000**	**₱2,960,000,000**	**₱–**	**₱–**	**₱–**	**5,980,000,000**	**(15,322,281)**	**5,964,677,719**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
China yuan renminbi-denominated loans	**¥77,476,000**	**¥375,168,446**	**¥60,900,000**	**¥–**	**¥–**	**¥–**	**3,383,485,968**	**–**	**3,383,485,968**
Interest rate	**5.76%–6.20%**	**5.76%–6.20%**	**5.76%**						
							₱51,846,235,968	**(₱407,413,365)**	**₱51,438,822,603**

2011

	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	₱25,550,000	₱25,550,000	₱3,697,800,000	₱1,097,300,000	₱8,660,000	₱1,914,040,000	₱6,768,900,000	(₱39,878,468)	₱6,729,021,532
Interest rate	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–6.65%	5.89%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱990,000	₱990,000	₱990,000	₱1,194,060,000	₱–	₱800,000,000	1,997,030,000	(11,355,128)	1,985,674,872
Interest rate	9.60%	9.60%	9.60%	9.60%		9.85%			
Other bank loans	₱–	₱–	₱–	₱–	₱1,200,000,000	₱–	1,200,000,000	(6,327,316)	1,193,672,684
Interest rate					9.75%				
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$–	$–	$145,000,000	$–	6,356,800,000	(255,267,021)	6,101,532,979
Interest rate					LIBOR+spread				
U.S. dollar-denominated bilateral loans	$–	$25,000,000	$–	$–	$–	$–	1,096,000,000	(11,070,701)	1,084,929,299
Interest rate		LIBOR+spread							
Other U.S. dollar loans	$–	$20,000,000	$–	$50,000,000	$–	$–	3,068,800,000	(38,021,415)	3,030,778,585
Interest rate		LIBOR+spread		LIBOR+spread					
Philippine peso-denominated corporate notes	₱50,300,000	₱50,300,000	₱248,800,000	₱4,800,000,000	₱–	₱–	5,149,400,000	(33,851,255)	5,115,548,745
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
Philippine peso-denominated five-year floating rate notes	₱50,000,000	₱50,000,000	₱50,000,000	₱50,000,000	₱4,800,000,000	₱–	5,000,000,000	(37,586,753)	4,962,413,247
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Philippine peso-denominated five-year bilateral loans	₱46,875,000	₱–	₱–	₱–	₱500,000,000	₱–	546,875,000	(2,583,709)	544,291,291
Interest rate	PDST-F+margin%				PDST-F+margin%				
Other bank loans	₱10,000,000	₱10,000,000	₱3,010,000,000	₱2,960,000,000	₱–	₱–	5,990,000,000	(21,902,580)	5,968,097,420
Interest rate	PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%					
China yuan renminbi-denominated loans	¥88,738,000	¥77,476,000	¥375,168,446	¥60,900,000	¥–	¥–	4,176,648,075	–	4,176,648,075
Interest rate	6.20%–6.65%	6.20%–6.65%	6.20%–6.65%	6.20%–6.65%					
							₱41,350,453,075	(₱457,844,346)	₱40,892,608,729

Interest Rate Risk Sensitivity Analysis
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax. The impact on the Company's stockholders' equity, due to changes in fair value of AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2012	**100**	(₱67,360,623)
	50	(33,680,312)
	(100)	67,360,623
	(50)	33,680,312
2011	100	(₱47,083,030)
	50	(23,541,515)
	(100)	47,083,030
	(50)	23,541,515

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 the currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To manage its foreign currency risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows (see Note 23).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱14,581 million (US$355 million) and ₱14,909 million (US$363 million), respectively, as at December 31, 2012, and ₱10,350 million (US$236 million) and ₱10,808 million (US$246 million), respectively, as at December 31, 2011.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱41.05 to US$1.00 and ₱43.84 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2012 and 2011, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in ₱/US$ exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's stockholders' equity.

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2012	**₱1.50**	**₱2,987,744**
	1.00	**1,991,830**
	(1.50)	**(2,987,744)**
	(1.00)	**(1,991,830)**
2011	₱1.50	₱3,910,844
	1.00	2,607,229
	(1.50)	(3,910,844)
	(1.00)	(2,607,229)

Credit Risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 23.

Since the Company trades only with recognized third parties, there is no requirement for collateral.

Credit Quality of Financial Assets
The credit quality of financial assets is determined by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to financial assets with counterparties who are not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

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

	2012			
	Neither Past Due nor Impaired		**Past Due but not Impaired**	
	High Quality	**Standard Quality**		**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱9,663,575,278**	**₱–**	**₱–**	**₱9,663,575,278**
Short-term investments	**821,000,000**	**–**	**–**	**821,000,000**
Receivables from:				
Rent	**–**	**4,067,710,900**	**76,912,399**	**4,144,623,299**
Accrued interest	**47,123,072**	**–**	**–**	**47,123,072**
Advances to suppliers and others	**–**	**1,688,335,509**	**–**	**1,688,335,509**
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	**759,300,343**	**–**	**–**	**759,300,343**
Derivative assets	**109,978,821**	**–**	**–**	**109,978,821**
AFS Investments				
Corporate notes	**1,000,000,000**	**–**	**–**	**1,000,000,000**
	₱12,400,977,514	**₱5,756,046,409**	**₱76,912,399**	**₱18,233,936,322**

** Excluding cash on hand amounting to ₱43 million.*

	2011			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱8,252,825,018	₱–	₱–	₱8,252,825,018
Short-term investments	876,800,000	–	–	876,800,000
Receivables from:				
Rent	–	3,692,944,170	97,012,266	3,789,956,436
Accrued interest	45,556,109	–	–	45,556,109
Advances to suppliers and others	–	872,521,181	–	872,521,181
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	812,953,412	–	–	812,953,412
Derivative assets	115,618,680	–	–	115,618,680
AFS Investments				
Corporate notes	1,000,000,000	–	–	1,000,000,000
	₱11,103,753,219	₱4,565,465,351	₱97,012,266	₱15,766,230,836

** Excluding cash on hand amounting to ₱37 million.*

Liquidity Risk

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through evaluation of projected and actual cash flow information. Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company's financial assets, which have maturity of less than 12 months and used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to ₱9,707 million, ₱821 million and ₱759 million, respectively, as at December 31, 2012, and ₱8,290 million, ₱877 million and ₱813 million, respectively, as at December 31, 2011. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,000 million as at December 31, 2012 and 2011.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2012			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Loans payable	**₱800,000,000**	**₱–**	**₱–**	**₱800,000,000**
Accounts payable and other current liabilities*	**11,082,067,528**	**–**	**–**	**11,082,067,528**
Long-term debt (including current portion)	**3,565,265,400**	**46,540,835,301**	**11,485,043,650**	**61,591,144,351**
Derivative liabilities - interest rate swaps	**17,428,372**	**51,987,472**	**14,046,843**	**83,462,687**
Tenants' deposits	**–**	**8,386,248,204**	**–**	**8,386,248,204**
Liability for purchased land	**–**	**1,214,756,670**	**–**	**1,214,756,670**
Other noncurrent liabilities*	**–**	**1,389,211,697**	**–**	**1,389,211,697**
	₱15,464,761,300	**₱57,583,039,344**	**₱11,499,090,493**	**₱84,546,891,137**

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱316 million and ₱447 million, respectively.*

	2011			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	₱9,946,358,667	₱–	₱–	₱9,946,358,667
Long-term debt (including current portion)	2,619,975,153	43,266,421,430	3,277,656,190	49,164,052,773
Derivative liabilities - interest rate swaps	415,077,453	58,758,533	–	473,835,986
Tenants' deposits	–	7,467,302,387	–	7,467,302,387
Liability for purchased land	–	1,551,018,812	–	1,551,018,812
Other noncurrent liabilities*	–	1,322,411,095	–	1,322,411,095
	₱12,981,411,273	₱53,665,912,257	₱3,277,656,190	₱69,924,979,720

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱204 million and ₱474 million, respectively.*

Capital Management

Capital includes equity attributable to equity holders of the parent.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, payoff existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is interest-bearing debt divided by total capital plus interest-bearing debt and net interest-bearing debt divided by total capital plus net interest-bearing debt. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents, short-term investments, investments held for trading and AFS investments.

As at December 31, the Company's gearing ratios are as follows:

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

	2012	2011
Loans payable	**₱800,000,000**	₱–
Current portion of long-term debt	**1,791,703,848**	799,086,409
Long-term debt - net of current portion	**49,647,118,755**	40,093,522,320
Total interest-bearing debt (a)	**52,238,822,603**	40,892,608,729
Total equity attributable to equity holders of the parent	**69,944,410,317**	63,773,661,498
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱122,183,232,920**	₱104,666,270,227
Gearing ratio (a/b)	**43%**	39%

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

	2012	2011
Loans payable	**₱800,000,000**	₱–
Current portion of long-term debt	**1,791,703,848**	799,086,409
Long-term debt - net of current portion	**49,647,118,755**	40,093,522,320
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(12,287,157,704)**	(10,979,969,451)
Total net interest-bearing debt (a)	**39,951,664,899**	29,912,639,278
Total equity attributable to equity holders of the parent	**69,944,410,317**	63,773,661,498
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱109,896,075,216**	₱93,686,300,776
Gearing ratio (a/b)	**36%**	32%

23. Financial Instruments

The table below presents a comparison of the carrying amounts and fair values of the Company's financial instruments by category and by class as at December 31:

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱9,706,857,361**	**₱9,706,857,361**	₱8,290,216,039	₱8,290,216,039
Short-term investments	**821,000,000**	**821,000,000**	876,800,000	876,800,000
Receivables from:				
Rent	**4,144,623,299**	**4,144,623,299**	3,789,956,436	3,789,956,436
Accrued interest	**47,123,072**	**47,123,072**	45,556,109	45,556,109
Advances to suppliers and others	**1,688,335,509**	**1,688,335,509**	872,521,181	872,521,181
	16,407,939,241	**16,407,939,241**	13,875,049,765	13,875,049,765
Financial assets at FVPL:				
Investments held for trading - Corporate and government bonds	**759,300,343**	**759,300,343**	812,953,412	812,953,412
Derivative assets	**109,978,821**	**109,978,821**	115,618,680	115,618,680
	869,279,164	**869,279,164**	928,572,092	928,572,092
AFS investments -				
Corporate notes	**1,000,000,000**	**1,000,000,000**	1,000,000,000	1,000,000,000
	₱18,277,218,405	**₱18,277,218,405**	₱15,803,621,857	₱15,803,621,857
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱244,330,399**	**₱244,330,399**	₱237,979,926	₱237,979,926
Other financial liabilities:				
Loans payable	**800,000,000**	**800,000,000**	–	–
Accounts payable and other current liabilities*	**11,082,067,528**	**11,082,067,528**	9,946,358,667	9,946,358,667
Long-term debt (including current portion)	**51,438,822,603**	**53,227,448,393**	40,892,608,729	42,561,503,623
Tenants' deposits	**8,386,248,204**	**7,976,094,815**	7,467,302,387	7,285,378,046
Liability for purchased land	**1,214,756,670**	**1,155,345,530**	1,551,018,812	1,520,654,214
Other noncurrent liabilities*	**1,389,211,697**	**1,321,268,336**	1,322,411,095	1,296,521,995
	74,311,106,702	**75,562,224,602**	61,179,699,690	62,610,416,545
	₱74,555,437,101	**₱75,806,555,001**	₱61,417,679,616	₱62,848,396,471

**Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱316 million and ₱447 million, respectively, as at December 31, 2012, and ₱204 million and ₱474 million, respectively, as at December 31, 2011.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents and Short-term Investments. The carrying amounts approximate fair values due to the short-term nature of the instruments.

Receivables. The net carrying value approximates the fair value due to the short-term maturities of the receivables.

Investments Held for Trading. The fair values are based on quoted market prices of the instruments at balance sheet date.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at balance sheet date. For investments where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. Discount rate used was 4.74% and 6.21% as at December 31, 2012 and 2011, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Loans Payable, Accounts Payable and Other Current Liabilities. The carrying values approximate the fair values due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.52% to 5.35% as at December 31, 2012, and 2.67% to 6.36% as at December 31, 2011.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular re-pricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rates used range from 1.73% to 5.91% as at December 31, 2012, and 1.98% to 6.32% as at December 31, 2011.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.99% to 4.06% as at December 31, 2012, and 2.97% to 3.67% as at December 31, 2011.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Company's financial instruments carried at fair value as at December 31 based on Levels 1 and 2:

	2012		2011	
	Level 1	**Level 2**	Level 1	Level 2
Financial Assets				
Financial assets at FVPL:				
Investments held for trading -				
Corporate and government bonds	**₱759,300,343**	**₱–**	₱812,953,412	₱–
Derivative assets	**–**	**109,978,821**	–	115,618,680
	759,300,343	**109,978,821**	812,953,412	115,618,680
AFS investments -				
Corporate notes	**–**	**1,000,000,000**	–	1,000,000,000
	₱759,300,343	**₱1,109,978,821**	₱812,953,412	₱1,115,618,680
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱–**	**₱244,330,399**	₱–	₱237,979,926

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial instruments classified under Level 3.

Derivative Financial Instruments
To address the Company'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 currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

The table below shows information on the Company's interest rate swaps presented by maturity profile.

	2012		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$145,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	**2.91%–3.28%**
Outstanding notional amount	**$30,000,000**	**$30,000,000**	**$30,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.53%**	**3.53%**	**3.53%**
Outstanding notional amount	**$20,000,000**	**$20,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.18%**	**3.18%**	
Outstanding notional amount	**$25,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**4.10%**		
Fixed-Floating			
Outstanding notional amount	**₱970,000,000**	**₱960,000,000**	**₱950,000,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱970,000,000**	**₱960,000,000**	**₱950,000,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	2011		
	<1 Year	>1-<2 Years	>2-<5 Years
Floating-Fixed			
Outstanding notional amount	$145,000,000	$145,000,000	$145,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	2.91%–3.28%	2.91%–3.28%	2.91%–3.28%
Outstanding notional amount	$30,000,000	$30,000,000	$30,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.53%	3.53%	3.53%
Outstanding notional amount	$20,000,000	$20,000,000	$20,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.18%	3.18%	3.18%
Outstanding notional amount	$25,000,000	$25,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	4.10%	4.10%	
Outstanding notional amount	$20,000,000	$20,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.41%	3.41%	
Fixed-Floating			
Outstanding notional amount	₱980,000,000	₱970,000,000	₱960,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱980,000,000	₱970,000,000	₱960,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Interest Rate Swaps. In 2011, the Parent Company entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 16). As at December 31, 2012 and 2011, the floating to fixed interest rate swaps have aggregate negative fair value of ₱158 million and ₱142 million, respectively.

The Parent Company also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 16). As at December 31, 2012 and 2011, the floating to fixed interest rate swaps has negative fair value of ₱17 million and ₱15 million, respectively.

In 2010, the Parent Company entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 16). As at December 31, 2012 and 2011, the floating to fixed interest rate swap has a negative fair value of ₱48 million and positive fair value of ₱38 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The combined 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 16). As at December 31, 2012 and 2011, these swaps have positive fair values of ₱110 million and ₱116 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 16). On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 16). As at December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱3 million. In January 2012, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱1 million loss in 2012.

In 2009, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$145 million. Under these agreements, the Parent Company effectively converts the floating rate US$30 million two-year bilateral loan, US$90 million three-year term loan and US$25 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 16). The Parent Company preterminated the US$30 million swap on November 30, 2010 and the US$90 million swap on May 16, 2011. Fair value changes from the preterminated swaps recognized in the consolidated statements of income amounted to ₱9 million loss in 2011 and ₱6 million gain in 2010. As at December 31, 2012 and 2011, the outstanding US$25 million floating to fixed interest rate swaps have negative fair values of ₱22 million and ₱40 million, respectively.

Also in 2009, the Parent Company entered into Philippine peso interest rate swap agreement with notional amount of ₱750 million. Under the agreement, the Parent Company effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 16). On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Negative fair value from the preterminated swap recognized in the consolidated statements of income amounted to ₱14 million in 2011.

In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million with repayment of ₱5 million every anniversary. Under these agreements, the Parent Company effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 16). On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27 million loss in 2011.

Foreign Currency Options. In 2010, the Parent Company simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. The Parent Company combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, the Parent Company, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, the Parent Company, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As at December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

Non-deliverable Forwards. In 2012 and 2011, the Parent Company entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ forward contracts with the same aggregate notional amount. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱67 million gain, ₱480 million gain and ₱165 million gain in 2012, 2011 and 2010, respectively.

Fair Value Changes on Derivatives

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

	2012	2011
Balance at beginning of year	**(₱122,361,246)**	₱28,319,173
Net changes in fair value during the year	**24,406,448**	236,485,791
Less fair value of settled derivatives	**(36,396,780)**	(387,166,210)
Balance at end of year	**(₱134,351,578)**	(₱122,361,246)

In 2012, the net changes in fair value amounting to ₱24 million comprise of interest paid amounting to ₱27 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱51 million, which is included under "Others - net" account in the consolidated statements of income.

In 2011, the net changes in fair value amounting to ₱236 million comprise of interest paid amounting to ₱22 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱258 million, which is included under "Others - net" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2012	2011
Derivative assets	**₱109,978,821**	₱115,618,680
Derivative liabilities	**(244,330,399)**	(237,979,926)
	(₱134,351,578)	(₱122,361,246)

24. Basic/Diluted Earnings Per Share Computation

Basic/diluted EPS is computed as follows:

	2012	2011	2010
Net income attributable to equity holders of the parent (a)	**₱10,529,954,990**	₱9,055,995,525	₱7,856,348,789
Common shares issued at beginning of year	**13,917,800,067**	13,917,800,067	13,348,191,367
Stocks dividends (see Note 17)*	**3,474,734,693**	3,474,734,693	3,474,734,693
Weighted average number of shares issued in equity placement (see Note 17)	**–**	–	118,668,479
Common shares issued at end of year	**17,392,534,760**	17,392,534,760	16,941,594,539
Less treasury stock (see Note 17)	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**17,373,677,760**	17,373,677,760	16,922,737,539
Earnings per share (a/b)	**₱0.606**	₱0.521	₱0.464

** Retroactively adjusted for stock dividends declared.*

25. Events after the Reporting Date

On January 7, 2013, the Company has entered into a joint venture with Waltermart Mall Group of Companies (Waltermart). Waltermart is engaged in the business of shopping mall operations. Waltermart currently operates 17 shopping centers across Metro Manila, North and South Luzon.

As at February 18, 2013, the final terms and conditions of the joint venture are still subject to due diligence and discussion.

PRIME
HOLDINGS

2012 AWARDS

SM Prime Holdings, Inc.

The Asset Corporate Awards
Platinum Awardee (2010, 2011 and 2012)
For All Around Excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

8th Corporate Governance Asia Recognition Awards
One of the recipients of the Annual Corporate Governance Awards – The Best of Asia (2006-2012)

Corporate Governance Asia's 2nd Asian Excellence Recognition Awards
Best Environmental Responsibility

Institute of Corporate Directors
Gold Award for Corporate Governance

Philippine Stock Exchange 1st Bell Awards
One of the best listed firms that garnered the Bell Award for Corporate Governance

48th Anvil Awards
Merit Award, Public Relations Tools- Special Events in Support of Corporate/Marketing Objectives/Product Launches of Top Leaders Forum of Shopping Center Management Corporation

Asia Pacific Real Estate Association (Aprea) Best Practices Awards 2012
Merit Award for Corporate Governance

FINEX-ING CFO of the Year
Mr. Jeffrey C. Lim

Finance Asia
Mr. Jeffrey Lim- Best CFO in the Philippines (Rank 3)

International Council of Shopping Centers (ICSC) Asia Pacific Awards
SM Supermalls – Asia Pacific Community Support Award for Operation Sendong: People Helping People to Rebuild a City and Digital Media Marketing Gold Award for its iButterfly Hunt Campaign

Asian Publishing Awards
SM Shopmag Magazine of SM Supermalls – Innovative Custom/Trade Category

Philippine Retailers Awards 2012
Shopping Center of the Year (Large Category) – SM Megamall
Hall of Fame (Large Category) – SM City North Edsa

City Government of Mandaluyong
SM Megamall – Top Taxpayer

45th Annual Golden Tipolo Award Gabi ng Parangal 2012
SM City Masinag – Top Taxpayer

14th Charter Day of Valenzuela City
SM City Valenzuela – Top Job Provider Award
SM City Valenzuela – On-The-Spot Hirer of the Year Award
SM City Valenzuela – Top Taxpayer Award

City Government of Naga
SM Prime Holdings, Inc. – Top Taxpayer, Real Property Tax Category for Corporations
SM City Naga – Top Taxpayer, Jobs Fair Employer of the Year and "On the Spot" Hirer of the Year

PRIME
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