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ATTY MARIANNE M GUERRERO

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## Annual Meeting

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**To be accomplished by SEC Personnel concerned**

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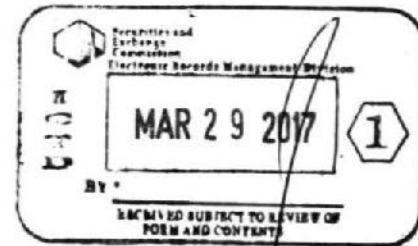
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March 28, 2017

**SECURITIES AND EXCHANGE COMMISSION**

Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City



ATTENTION : **DIR. JUSTINA F. CALLANGAN**  
CORPORATE GOVERNANCE AND FINANCE DEPARTMENT

**PHILIPPINE STOCK EXCHANGE, INC.**

3<sup>rd</sup> Floor, PSE Plaza, Ayala Triangle  
Ayala Ave., Makati City

ATTENTION : **JOSE VALERIANO B. ZUÑO III**  
OIC – HEAD, DISCLOSURE DEPARTMENT

**RE : UPDATES AND AMENDMENTS TO THE ANNUAL CORPORATE GOVERNANCE REPORT**

Gentlemen:

Pursuant to SEC Memorandum Circular Nos. 1 and 12, series of 2014, we hereby submit our updates and amendments to **SM INVESTMENTS CORPORATION'S** Annual Corporate Governance Report (ACGR). The aforementioned updates and amendments are attached for your reference, and were discussed and approved by the Board of Directors in its Regular Meeting held on March 1, 2017.

The Board approved the updates and amendments in its Annual Corporate Governance Report may be summarized as follows:

**A. Board Matters**

- a. Update of Limit on Number of Board Seats Allowed (pg. 7)
- b. Update of Director Shareholding in the Company (pg. 8)
- c. Update of Criteria for Permanent Disqualification of a Director (pg. 14)
- d. Update of Criteria for Temporary Disqualification of a Director (pg. 16)

**SM Investments Corporation**  
10/F One E-Com Center  
Harbor Drive  
Mall of Asia Complex  
1300, Pasay City, Philippines

- B. Board Meetings & Attendance
  - a. Update of Attendance of Directors (pg. 23)
  - b. Update on Meetings of Non-Executive Directors (pg. 24)
  - c. Update on Role of the Corporate Secretary (pg. 24)
- C. Remuneration Matters
  - a. Update of Aggregate Remuneration of Directors (pg. 27)
  - b. Update of Aggregate Remuneration of Management (pg. 27)
- D. Board Committees
  - a. Update of Board Committee Details – Corporate Governance Committee (pg. 28)
  - b. Update of Board Committee Attendance (pgs. 29-30)
  - c. Update of Work Done and Issues Addressed (pg. 31)
- E. Role of Stakeholders
  - a. Update of Details on Separate Sustainability Report (pg. 44)
- F. Disclosure and Transparency
  - a. Update of Ownership Structure (pg. 45)
  - b. Update of External Auditor's Fees (pg. 46)
  - c. Update of Release of Audited Financial Statements (pg. 47)
  - d. Update of Disclosure of RPTs (pg. 47)

Thank you.

Very truly yours,

  
**Atty. Marianne M. Guerrero**

Senior Vice President & Head – Legal Department  
and Assistant Corporate Secretary

Cc: Issuer Compliance & Disclosure Department  
Philippine Dealing & Exchange Corp.



# INVESTMENTS CORPORATION

## **ANNUAL CORPORATE GOVERNANCE REPORT**



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## A. BOARD MATTERS

### 1) Board of Directors

Number of Directors per Articles of Incorporation	8
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Actual number of Directors for the year	8
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#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual /Special Meeting)	No. of years served as director
Henry Sy, Sr.	NED	Ms. Sharone Ong King	Jan. 1960*	27 April 2016	Annual	55
Teresita T. Sy-Coson	NED	Ms. Sharone Ong King	May 1979*	27 April 2016	Annual	36
Henry T. Sy, Jr.	NED	Ms. Sharone Ong King	May 1979*	27 April 2016	Annual	36
Harley T. Sy	ED	Ms. Sharone Ong King	May 1993*	27 April 2016	Annual	22
Jose T. Sio	ED	Ms. Sharone Ong King	May 2005	27 April 2016	Annual	10
Ah Doo Lim	ID	Ms. Sharone Ong King	April 2008	27 April 2016 (7)	Annual	7
Joseph R. Higdon	ID	Ms. Sharone Ong King	April 2010	27 April 2016 (5)	Annual	5
Tomasa H. Lipana	ID	Ms. Sharone Ong King	27 April 2016	27 April 2016	Annual	N/A

\*The Company was listed in the Philippine Stock Exchange (PSE) on March 22, 2005, but the indicated individual has served as a director since the year given.

#### (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Company's corporate governance framework and policies are embodied in its Revised Manual on Corporate Governance (March 1, 2016) which sets out the compliance system and plan of compliance. Complementing the framework are a number of related policies which deal with specific implementation areas such as, but not limited to, the following:

- Code of Ethics stresses integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the rights of shareholders, the protection of company information and assets, and promotion of corporate social responsibility. It further provides guidelines on the expected manner by which directors, officers, and employees should perform their duties and responsibilities while dealing with creditors, customers, contractors, suppliers, regulators, and the public.
- Insider Trading Policy restricts the disclosure of material non-public information and participation in trading activities by directors, officers, and employees within a defined period before and after the disclosure of quarterly and annual financial results and any other material information. The policy also requires reporting of trading activities within three (3) days.
- Guidelines on Acceptance of Gifts governs solicitation and acceptance of gifts by directors, officers, and employees from any business partner to avoid conflict of interest scenarios.
- Guidelines on Travel Sponsored by Business Partners explicitly prohibits acceptance of travel sponsorships from any business partner.
- Related Party Transactions reiterates the Company's commitment to transparency by practicing full disclosure of the details, nature, extent, and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE.
- Policy on Accountability, Integrity, and Vigilance (PAIV) defines procedures for raising concerns, and issues through filing of an incident report by any director, officer, or employee on suspected or



actual violations of the Code of Ethics, the Company's Code of Conduct or any applicable law or regulation. The policy further states the responsibility of Management for conducting investigations and reporting findings

The Revised Manual of Corporate Governance sets out the rights of the investors/minority interests in respect of the following:

- a. Voting right
- b. Pre-emptive right
- c. Power of inspection
- d. Right to information
- e. Right to dividend; and
- f. Appraisal right

The Company's Code of Ethics provides the following to protect the rights of shareholders:

- a. Adoption of strategies and plans with the end in view of increasing shareholder value.
- b. Maintaining complete and accurate books of accounts and records in accordance with applicable laws and standards, and implementing a system of internal controls to ensure that financial reports present fairly the Company's financial position and operating results.
- c. Ensuring an independent audit of its financial statements by external auditors.
- d. Providing shareholders with complete, accurate, material and timely information regarding their investment and the Company's operations.

**(c) How often does the Board review and approve the vision and mission?**

The Board reviews the vision and mission annually, or sooner should the need arise.

**(d) Directorship in Other Companies**

**(i) Directorship in the Company's Group<sup>1</sup>**

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Henry Sy, Sr.	SM Prime Holdings, Inc.	Chairman Emeritus
	BDO Unibank, Inc.	Chairman Emeritus
	China Banking Corp.	Honorary Chairman
Teresita T. Sy-Coson	BDO Unibank, Inc.	Chairperson (NED)
	BDO Leasing and Finance Corp.	Chairperson (NED)
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman (NED)
Harley T. Sy	China Banking Corp.	Director (NED)
Jose T. Sio	China Banking Corp.	Director (NED)
	Belle Corp.	Director (NED)
	Atlas Consolidated Mining and Development Corp.	Director (NED)

<sup>1</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ah Doo Lim	ST Engineering Ltd.	Director (NED)
	Sembcorp Marine Ltd.	Director (NED)
	GP Industries Ltd.	Director (NED)
	Bracell Limited	Director (NED)
	ARA-CWT Trust Management (Cache) Ltd.	Director (NED)
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director (ID)
	Security Bank Corporation	Independent Director (ID)
Tomas H. Lipana	None.	N/A

(iii) Relationship within the Company and its Group

Provide details of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Henry Sy, Sr.	Teresita T. Sy-Coson (Vice Chairperson)	Daughter
	Elizabeth T. Sy	Daughter
	Henry T. Sy, Jr. (Vice Chairman)	Son
	Hans T. Sy	Son
	Herbert T. Sy	Son
	Harley T. Sy (President)	Son

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

	Guidelines	Maximum Number of Directorships in other companies
<b>Executive Director</b>	Per the Company's Manual on Corporate Governance, a low indicative limit will apply to executive directors that also hold board seats in other companies.	
<b>Non-Executive Director/ Independent Director</b>	Non-Executive/Independent Directors may hold up to five (5) simultaneous board seats at any one time.	Five (5)
<b>CEO</b>	Per the Company's Manual on Corporate Governance, a low indicative limit will apply to executive directors that also hold board seats in other companies.	

**(e) Shareholding in the Company**

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Henry Sy, Sr.	4,773,825	-	0.4
Teresita T. Sy-Coson	85,628,175	-	7.11
Henry T. Sy, Jr.	87,690,675	-	7.28
Harley T. Sy	87,792,438	-	7.29
Jose T. Sio	21	-	-
Ah Doo Lim	187	-	-
Joseph R. Higdon	187	-	-
Tomas H. Lipana	150	-	-
<b>TOTAL</b>	<b>265,885,658</b>	-	<b>22.08</b>

\*as of February 28, 2017

**2) Chairman and CEO**

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☒ No ☐

Identify the Chair and CEO:

Chairman of the Board	Henry Sy, Sr.
CEO/President	Harley T. Sy

- (b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO. *The roles and accountabilities of the Chairman and CEO as contained in the By-Laws and Manual on Corporate Governance include:*

	Chairman	Chief Executive Officer
Role	<ul style="list-style-type: none"> <li>a. To preside at all meetings of stockholders and directors;</li> <li>b. To sign all certificates, contracts, and other instruments on behalf of the Corporation, except as otherwise provided by law;</li> <li>c. To have general supervision and administration of the affairs of the Corporation;</li> <li>d. To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors;</li> </ul>	<ul style="list-style-type: none"> <li>a. To ensure that the administrative and operational policies of the Corporation are carried out under the direction and control of the Chairman of the Board and Chief Executive Officer;</li> <li>b. To supervise and direct the day to day business affairs of the Corporation;</li> <li>c. To recommend to the Chairman of the Board and the Board of Directors specific projects for the attainment of corporate objectives and policies;</li> </ul>
Accountabilities	<ul style="list-style-type: none"> <li>e. To carry out the resolutions of the Board of Directors and to represent the corporation at all functions and</li> </ul>	<ul style="list-style-type: none"> <li>d. To exercise such powers and duties and perform such duties commonly incident to and vested</li> </ul>

	<p>proceedings;</p> <p>f. To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors</p>	<p>in the President of a Corporation and which the Chairman of the Board and Chief Executive Officer may, from time to time assign to him.</p> <p>e. To sign or cause the signatures of Certificates of Stock.</p> <p>The President may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.</p>
Deliverables	<p>a. With the support from all the directors in the Board, we will continue to strive to enhance shareholder value.</p> <p>b. We will continue to strengthen the SM brand and build the business on the back of very positive economic outlook of the country.</p> <p>c. Study and pursue further improvement in corporate governance structures and practices following the guidelines in the ASEAN CG scorecard.</p>	<p>a. Ensure that the goals and objectives of the Group which were agreed upon during the Annual Strategic Planning are met.</p> <p>b. Stress further on our core values of innovation, hard work, efficient cost management, integrity across all business units.</p> <p>c. Update and align our Corporate Governance Manual towards best practice.</p> <p>d. Implementation of matters approved by the Board of Directors and shareholders.</p>

**3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?**

Under the Company's Amended By-Laws (Article VI. Officers, Section 9. Executive and Senior Vice Presidents), *in the absence or disability of the President, the most senior Executive or Senior Vice President who is also a Director, shall perform all the duties of the President, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President.* The Corporate Governance Committee adheres to the principle of "fit and proper" in succession planning. In evaluating candidates, a high level of competency, experience and stature are used as standards. Furthermore, the maturity of character and ability to effectively assimilate into the SM culture are critical. Once evaluated, the recommendation is presented to the Board for discussion and consideration. Per the Manual on Corporate Governance, the Company's Succession Planning Policy Statement is as follows:

*A fundamental responsibility of the Board of Directors is to ensure that effective processes are in place to provide continuity of Board and executive leadership. The Board ensures that such leadership possesses sufficient depth, talent and conviction for effective Board oversight and execution of long term strategies, consistent with the Company's vision and mission statements. Hence, a process for identifying and assessing potential internal candidates, periodic review and assessment of readiness, contingency planning for temporary absences of the key positions due to disability or any other unexpected event, should be in place. The Board will review and assess said processes on an annual basis.*

*A succession planning process shall be established to include a) Identification of critical positions, b) Identifying potential successors, c) Readiness of successors, d) Possession of necessary knowledge, skills and behavior, and e) Tracking the progress.*

#### 4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. The Company's Corporate Governance Manual (CGM 1.2. Board Diversity Statement) states, "We value, promote, and observe a policy on diversity in the composition of our Company's Board. In particular, provided all other qualifications are met, there should be women in our Board of Directors. We will strive to have at least one woman independent director sit in our Board at all times."

Also found in the Company's Corporate Governance Manual, (CGM 1.4.1. Specific Duties and Functions), "the Board shall *install a process of selection to ensure a mix of competent directors and officers.*"

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. Under the Company's Corporate Governance Manual (CGM 1.5.4. Qualifications of Directors), "*in addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.*"

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	As provided for in the Company's By-Laws and Manual on Corporate Governance, it is an Executive Director's general role to ensure that aside from his responsibilities as a director, that the day-to-day management of the Company is sound and in line with the Company objectives. He is also expected to serve as the medium between the Board and Management.	As provided for in the Company's By-Laws and Manual on Corporate Governance, it is a Non-Executive Director's general role to uphold and fulfill his duties and responsibilities as member of the Board of Directors.	As provided for in the Company's By-Laws and Manual on Corporate Governance, it is an Independent Director's general role to ensure that aside from his responsibilities as a director, that he provides the Board with engaging discussions through independent thinking, ideas and judgment.
Accountabilities	<p>Under the Company's By-Laws, it is the Board of Directors' general responsibility to:</p> <ul style="list-style-type: none"> <li>• Protect the interests of the Company's various stakeholders;</li> <li>• Ensure the financial success of the business;</li> <li>• Effectively monitor management's performance;</li> <li>• Ensure that the principles of good corporate governance are observed throughout the organization;</li> <li>• Formulate policies for the accomplishment of corporate objectives.</li> </ul> <p>In line with the Company's By-Laws, the Manual on Corporate Governance also provides that a director shall also:</p> <ul style="list-style-type: none"> <li>• Conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;</li> <li>• Devote time and attention necessary to properly discharge his duties and</li> </ul>		

	responsibilities; <ul style="list-style-type: none"> <li>• Act judiciously;</li> <li>• Exercise independent judgment;</li> <li>• Have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies;</li> <li>• Observe confidentiality;</li> <li>• Ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.</li> </ul>		
Deliverables	a. Further strengthen and streamline the support infrastructure of the organization to be more efficient and responsive to the needs of the growing business.  b. Promote the corporate governance and compliance culture in the Company.  c. Institutionalize the risk management and corporate social responsibility programs across the organization.	a. Take the lead in the review of the performance of Board Committees vis a vis their respective charters, and introduce necessary refinements.  b. Pursue continuing education programs and opportunities for directors.	a. Oversee the regular updating of the Corporate Governance Manual.  b. Meet at least once a year, without any Executive Directors or Management present.  c. Meet the Auditor and External Auditors.  d. Pursue continuing education programs and opportunities for directors.

Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Company has adopted the definition of independence from Section 38 of the Securities Regulation Code. To ensure that the term "independence" fittingly applies, the Company tailored the SRC definition to define independence as *"independence from Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment"*. The Company adopts this definition as a requisite and one of the qualifications for its independent directors. The Company anchors its definition of "independence" on the commitment to a principles-based and responsible decision-making that respects and promotes the rights of shareholders, especially of the minority shareholders. Furthermore, compliance towards this commitment is assessed through the Annual Board Evaluation Process where INDEPENDENCE is a standard performance norm.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

Yes, the Company has adopted a policy that an independent director may serve the Board for a period of five (5) consecutive years, which should be followed by a "cooling off" period of two (2) years; should the Company wish to bring back the independent director for another four (4) years. Upon completing a total of nine (9) years, the individual will no longer be allowed to serve as an independent director.

## 5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

### (a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
There were no changes to the composition of the Board of Directors in the past year related to resignation/death/removal.			

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
<b>a. Selection/Appointment</b>		
(i) Executive Directors	Members of the Board of Directors are nominated through the Corporate Governance Committee and elected at the Annual Stockholders' Meeting to serve for a term of one (1) year until their successors are duly elected and qualified.	Per the Company's Manual on Corporate Governance, each director shall possess all of the following qualifications:  a. Holder of at least one (1) share of stock of the Corporation;  b. Shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;  c. Shall be at least twenty one (21) years old;  d. Shall be proven to possess integrity and probity;  e. Shall be diligent, hardworking and reputable; and  f. Shall possess the ideals and values that are aligned to the Company's vision and mission statements.
(ii) Non-Executive Directors	Per the Corporate Governance Committee's Charter, the Committee's role is to determine the nominees for election to the Company's Board, to identify through professional search firms or other similar mechanisms, and recommend candidates to fill vacancies occurring between annual stockholder's meetings, and to provide communication with the Board, and as appropriate, communications with shareholders and regulators.  The Corporate Governance Committee also reviews and evaluates all candidates nominated to Officer positions in the Company that under the Company's By-Laws, require Board approval prior to effectivity of such Officer appointments or promotions.	In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.
(iii) Independent Directors	Furthermore, under the responsibilities of the Corporate Governance Committee in the committee's charter – the Committee shall <i>"ensure that all candidates nominated by shareholders to become a member of the Board of Directors shall possess the ideals and values that are aligned to the Company's vision and mission statements."</i>	In addition to the qualifications of directors, an individual nominated and elected as an independent director should meet the following requirements:  a. Shall not be a director or officer of the Company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing.  b. Shall not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders.

		<p>c. Shall not be a relative to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister.</p> <p>d. Shall not be acting as nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.</p> <p>e. Shall not have been employed in any executive capacity by the Company, any of its related companies, and/or any of its substantial shareholders within the last five (5) years.</p> <p>f. Shall not be retained as professional adviser by the Company, any of its related companies, and/or any of its substantial shareholders within the last five (5) years.</p> <p>g. Shall not be retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, either personally or through his firm.</p> <p>h. Shall not be engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether as a principal or in partnership with other persons and/or through a firm of which he/she is a partner and/or company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms' length and are immaterial.</p>
<b>b. Re-appointment</b>		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-appointment.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
<b>c. Permanent Disqualification</b>	<b>Process Adopted</b>	<b>Criteria</b>
(i) Executive Directors	The Corporate Governance Committee shortlists, assesses and evaluates all candidates nominated to become a	Any of the following shall be a ground for the permanent disqualification of a director:  <b>a.</b> Any person convicted by final judgment or
(ii) Non-Executive Directors		
(iii) Independent Directors		



	<p>member of the Board in accordance with the qualification and disqualification criteria set out in the Company's Manual on Corporate Governance and other relevant laws.</p>	<p>order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p><b>b.</b> Any person who has been adjudged by final judgment or order of the Commission, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;</p> <p><b>c.</b> Any person judicially declared to be insolvent;</p> <p><b>d.</b> Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs;</p> <p><b>e.</b> Conviction by final judgment of an offense punishable by imprisonment or a major violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment;</p> <p><b>f.</b> Any <i>Independent Director</i> that has served on the Board for a maximum cumulative term of nine (9) years;</p> <p><b>g.</b> No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:</p> <p style="padding-left: 40px;"><b>i.</b> If the person is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of, any corporation (other than one in which the</p>
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		<p>Corporation owns at least 20% of the capital stock) which is engaged in a business directly competitive to that of the Corporation or any of its subsidiaries or affiliates;</p> <p>ii. If the person is an officer, manager or controlling person of, or the owner or any member of his/her immediate family is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is an adverse party in any suit, action or proceeding (of whatever nature, whether civil, criminal, administrative or judicial) by or against the Corporation, which has been actually filed or threatened, imminent or probably, to be filed;</p> <p>iii. If the person is determined by the Board, in the exercise of its judgment in good faith, to be the nominee, officer, trustee, adviser or legal counsel, of any individual set forth in (i) and (ii) hereof.</p>
<b>d. Temporary Disqualification</b>	<b>Process Adopted</b>	<b>Criteria</b>
(i) Executive Directors	<p>The Corporate Governance Committee shortlists, assesses and evaluates all candidates nominated to become a member of the Board in accordance with the qualification and disqualification criteria set out in the Revised Manual on Corporate Governance.</p> <p>A temporary disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become</p>	<p>Any of the following shall be a ground for the temporary disqualification of a director:</p> <p>a. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing Rules and Regulations. This disqualification shall be in effect as long as the refusal persists;</p> <p>b. Absence or non-participation for whatever reason/s for more than 50% of all meetings, both regular and special, of the Board of Directors during his incumbency, or any twelve (12) month period during his incumbency, unless the absence is due to illness, death in the immediate family, or serious accident. This disqualification applies for purposes of the succeeding</p>
(ii) Non-Executive Directors		
(iii) Independent Directors		

	permanent.	<p>election;</p> <p>c. Dismissal or termination for cause as director of any corporation covered by the SEC Code of Corporate Governance. The disqualification shall be in effect until the director has been cleared from any involvement in the cause that gave rise to said dismissal or termination;</p> <p>d. If the independent director becomes an officer or employee of the same corporation, he shall be automatically disqualified from being an independent director;</p> <p>e. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final;</p> <p>f. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds 2% of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with; and</p> <p>g. A Non-Executive Director that holds more than five (5) simultaneous board seats in listed companies.</p>
e. Removal		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their removal.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-instatement.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their suspension.	
(ii) Non-Executive Directors		
(iii) Independent Directors		

## Voting Result of the last Annual General Meeting (April 27, 2016)

Name of Director	Number of shares abstained	Number of shares not voting in favor	Number of shares voting in favor
Henry Sy, Sr.	7,073,957	1,595,825	686,431,627
Teresita T. Sy-Coson	7,757,885	3,932,796	683,410,728
Henry T. Sy, Jr.	7,184,634	1,600,565	686,316,210
Harley T. Sy	6,612,414	1,544,465	686,944,530
Jose T. Sio	7,206,602	2,834,452	685,060,355
Ah Doo Lim	-	360,503	694,740,906
Joseph R. Higdon	-	525,152	694,576,257
Tomasa H. Lipana	-	525,152	694,576,257
<b>TOTAL</b>	<b>35,835,492</b>	<b>12,918,910</b>	<b>5,512,056,870</b>

### 6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

Under the Company's Corporate Governance Manual (CGM 1.4.10.) *"Ensure that each elected director shall, before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or government institute."*

Also, the Company's Orientation for New Employees of SM (ONE SM) provides new directors, officers and employees with a video orientation on the history, growth, direction, business units and core values of SM's Founder, Mr. Henry Sy, Sr. Furthermore, the Company complies with SEC MC. No. 20 (2013) – requiring all members of the board of directors and key officers to attend corporate governance trainings only with SEC accredited training providers annually.

(b) State any in-house training and external courses attended by Directors and Senior Management<sup>2</sup> for the past three (3) years:

In the past three (3) years, the Company has provided its Directors and Senior Management with orientations on the following:

- Cyber-security/Boards in Crisis (conducted by the ICD)
- Corporate Governance/Anti-Fraud Training (conducted by the ICD)
- Corporate Governance/Financial Audit Training (conducted by the ICD)
- Impact of New Tax Legislation (regularly conducted by SGV)
- ASEAN Corporate Governance Scorecard (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for Officers, Executives and Middle Management (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for New Employees (conducted by the Company's Corporate Governance Department)

<sup>2</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
<b>Henry Sy, Sr.</b>	Per the SEC, Mr. Henry Sy, Sr. is exempted from SEC MC No. 20, series of 2013, which requires all board directors and key officers to attend at least one (1) corporate governance training activity annually. Further to this, Mr. Sy has an Associate Degree in Commercial Science from Far Eastern University and a Doctor of Science (honoris causa) in Business Management from De La Salle College, Manila. Nevertheless, Mr. Sy will still endeavor to attend the continuing education programs of the Company.		
<b>Teresita Sy-Coson</b>	<b>September 14, 2016</b>	<b>Seminar on Corporate Governance (BDO)</b>	<b>Sycip, Gorres &amp; Velayo (SGV)</b>
	November 25, 2015	Mitigating Risk on Current Trends in Money Laundering	AMLC
<b>Henry T. Sy, Jr.</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Harley T. Sy</b>	<b>November 2, 2016</b>	Corporate Governance Training Program (CBC)	Institute of Corporate Directors (ICD)
	June 3, 2015	Orientation Course for Corporate Governance (CBC)	Institute of Corporate Directors (ICD)
<b>Jose T. Sio</b>	<b>September 14, 2016</b>	<b>Seminar on Corporate Governance (BDO)</b>	<b>Sycip, Gorres &amp; Velayo (SGV)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Ah Doo Lim</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Joseph R. Higdon</b>	<b>April 26, 2016</b>	<b>Annual Corporate Governance Seminar (SBC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	April 28, 2015	Orientation Course for Corporate Governance (SBC)	Institute of Corporate Directors (ICD)
<b>Tomas H. Lipana</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
<b>Atty. Elmer B. Serrano</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Atty. Marianne M. Guerrero</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>

	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Atty. Corazon I. Morando</b>	<b>November 2, 2016</b>	Corporate Governance Training Program (CBC)	Institute of Corporate Directors (ICD)
<b>Frederic C. DyBuncio</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Cecilia R. Patricio</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Grace F. Roque</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Franklin C. Gomez</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
<b>Lizanne C. Uychaco</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	May 13, 2015	Seminar on Corporate Governance	Sycip, Gorres & Velayo (SGV)
<b>Marcelo C. Fernando, Jr.</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	August 5, 2015	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
	March 12, 13, 19, 20, 2015	Professional Directors Program	Institute of Corporate Directors (ICD)
<b>Corazon P. Guidote</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>
	September 8, 2015	Seminar on Corporate Governance	Center for Global Excellence
<b>Wilson H. Go</b>	<b>August 3, 2016</b>	<b>Annual Corporate Governance Training Program (SMIC)</b>	<b>Institute of Corporate Directors (ICD)</b>

## B. CODE OF BUSINESS CONDUCT & ETHICS

- 1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>Under the Company's Conflict of Interest Policy, any director, officer or employee involved in an actual or potential conflict of interest is required to:</p> <ul style="list-style-type: none"> <li>immediately disclose to the Board of Directors (for directors) or to his immediate supervisor (for officers and employees) all material information regarding the conflict;</li> <li>inhibit himself/herself from any direct or indirect participation or involvement at any stage of the transaction;</li> <li>refrain from seeking to influence any official action by the company regarding the transaction; and</li> <li>comply with other requirements as may be imposed by the company in relation to the conflict of interest.</li> </ul>		
(b) Conduct of Business and Fair Dealings	<p>All directors, officers and employees are required to act with utmost integrity and prohibited from engaging in any unfair dealing practices. The Company prohibits any conflict of interest, unfair competition, breach of trust, insider trading, or any other act inimical to the Company's interest.</p>		
(c) Receipt of gifts from third parties	<p>The Company prohibits the solicitation or acceptance of gifts in any form from any business partner. However, a director, officer or employee may accept corporate give-aways, tokens or promotional items, provided that the gift is voluntarily given and is within the limits set by the Company's Code of Ethics.</p>		
(d) Compliance with Laws & Regulations	<p>The Company aims to conduct business in accordance with the highest standards of business ethics. To this end, all business dealings are required to be compliant with all applicable laws and regulations and must not in any way compromise the good name and reputation of the Company.</p>		
(e) Respect for Trade Secrets/Use of Non-public Information	<p>Under the Company's Code of Ethics, directors, officers and employees are prohibited from disclosing vital business information, unless authorized by the Company or required by law.</p>		
(f) Use of Company Funds, Assets and Information			
(g) Employment & Labor Laws & Policies	<p>Under the Company's Code of Ethics, all employees are selected, engaged and compensated based on qualification, merit and performance and are treated fairly and accorded respect and dignity. The Company adheres to all labor laws and policies and fosters its employee welfare program.</p>		
(h) Disciplinary action	<p>Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources and Corporate Governance departments are responsible for monitoring compliance with the Code of Ethics. Disciplinary actions against violators include dismissal and/or filing of appropriate civil and criminal actions.</p>		
(i) Whistle Blower	<p>The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any of the Company's directors, officers or employees may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit Committee.</p>		
(j) Conflict Resolution			

**2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?**

A formal cascade, covering broad to detailed aspects of the code of ethics, was sponsored and conducted by the Corporate Governance Department for directors, officers, and employees. On continuing basis, the Code of Ethics is cascaded through the Human Resources Department's enhanced Corporate Orientation Program for New Employees. The program, referred to as ONE SM (Orientation for New Employees of SM), gives employees an overview of the Company's corporate governance framework, policies, and its various components. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics.

**3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.**

Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources and Corporate Governance departments are responsible for monitoring compliance with the Code of Ethics. Disciplinary actions against violators include dismissal and/or filing of appropriate civil and criminal actions.

**4) Related Party Transactions**

**(a) Policies and Procedures**

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	The terms and conditions on related party transactions are maintained at arms-length and are properly documented. Such transactions are extended at terms no less than favorable than could have been obtained if the transactions were with unrelated parties.
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	All related party transactions are reviewed by the Related Party Transactions Committee and are properly disclosed in the financial statements. Prior to the creation of the Related Party Transactions Committee, all related party transactions were reviewed by the Audit Committee.
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	Ownership of SMIC in various subsidiaries and affiliates are properly disclosed in the parent and consolidated financial statements.
(8) Interlocking director relationship of Board of Directors	

**(b) Conflict of Interest**

**(i) Directors/Officers and 5% or more Shareholders**

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	Aside from the family relations among and between certain directors, officers and significant shareholders (detailed in item 5) Family, Commercial and Contractual Relations); the Company is not aware of any actual or probable conflict of interest.
Name of Officer/s	
Name of Significant Shareholders	



(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	<ul style="list-style-type: none"><li>• Voluntary disclosure of relationship</li><li>• Required disclosure during hiring</li><li>• Inhibiting oneself in the processing, approval of the transaction</li><li>• Adherence to the principle of “arms-length” and “market-based” treatment and pricing of the transaction</li><li>• Enforcement of the whistle blower policy, Code of Conduct and Code of Ethics</li></ul>
Group	

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>3</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
a. Teresita T. Sy-Coson	Family	(a) through (f) are siblings.
b. Elizabeth T. Sy	Family	
c. Henry T. Sy, Jr.	Family	
d. Hans T. Sy	Family	
e. Herbert T. Sy	Family	
f. Harley T. Sy	Family	

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
None.		

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None.		

<sup>3</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

## 6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

Alternative Dispute Resolution System	
<b>Corporation &amp; Stockholders</b>	<p>A neutral third party participates to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative dispute resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the circumstances sees fit. This is disclosed in the Annual Report.</p> <p>Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties, and the policy that the decision-making authority in the process rests with the parties.</p> <p>There were no conflicts between the corporation and its stockholders, the corporation and third parties, and the corporation and regulatory authorities, for the last three years.</p>
<b>Corporation &amp; Third Parties</b>	
<b>Corporation &amp; Regulatory Authorities</b>	

## C. BOARD MEETINGS & ATTENDANCE

### 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Yes, per the Company's Manual on Corporate Governance (CGM 1.6.1.) "Board meetings shall be scheduled a year in advance."

### 2) Attendance of Directors

For the period of April 2016 – March 2017					
Board	Name	Date of Election	No. of Meetings Held	No. of Meetings Attended	%
Chairman	Henry Sy, Sr.	April 27, 2016	6	6	100
Vice Chairperson	Teresita T. Sy-Coson	April 27, 2016	6	6	100
Vice Chairman	Henry T. Sy, Jr.	April 27, 2016	6	6	100
President	Harley T. Sy	April 27, 2016	6	6	100
Executive Director	Jose T. Sio	April 27, 2016	6	6	100
Independent Director	Ah Doo Lim	April 27, 2016	6	6	100
Independent Director	Joseph R. Higdon	April 27, 2016	6	6	100
Independent Director	Tomasa H. Lipana	April 27, 2016	6	6	100

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

Yes, per the Company's Manual on Corporate Governance (CGM 1.6.3.) *"Non-executive Directors should have separate periodic meetings with the external auditor and heads of internal audit, compliance and risk functions, without any Executive Directors present; such meetings shall be chaired by the Lead Independent Director."* In 2016, independent and non-executive directors met five (5) times without any executive directors or members of management present. Aforementioned meetings were held on February 29, March 2, May 3, August 3, and November 9.

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

Yes, the minimum quorum requirement for Board decisions to be made has been set at two-thirds of the Board. The act of two-thirds of directors present at any meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers.

## 5) Access to Information

- (a) How many days in advance are board papers<sup>4</sup> for board of directors meetings provided to the board?

Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board meetings.

- (b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Under the Company's Manual on Corporate Governance (CGM 1.9.), "To enable the Board to properly fulfill their duties and responsibilities, management should provide directors with complete and timely information about the matter in the agenda of the meetings. *Directors should be given independent access to management and the Corporate Secretary, as well as to independent professional advice.*"

- (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

Under the Company's Manual on Corporate Governance (CGM 1.9.) the Corporate Secretary is an officer of the Company whose duties and responsibilities are as follows:

- Assist the Board and Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and Board Committee meetings and the annual board calendar, and assisting the chairs and the Board and Board Committees to set agendas for those meetings.
- Safeguard and preserve the integrity of the minutes of the meetings of the Board and Board Committees, as well as other official records of the Corporation.
- Gather and analyze all documents, records and other information essential to the conduct of his/her duties and responsibilities to the Corporation.
- Ensure that regular meetings are scheduled in the prior year and that the agendas, notices and materials are provided to the Board at least a week in advance of the actual meetings.
- Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- Work fairly and objectively with the Board, Management, shareholders and other stakeholders.
- Attend all Board meetings and maintain a record of the same.
- Oversee the drafting and/or amendment of the Corporation's By-Laws and ensure that they conform to regulatory requirements.

<sup>4</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

- (d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes. The Company's Corporate Secretary is a legal professional, in the person of Atty. Elmer B. Serrano. Under the Company's Manual on Corporate Governance, the Corporate Secretary must possess administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have some financial and accounting skills and knowledge of the working operations of the Company.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes

☒

No

☐

Committee	Details of the procedures
Executive	Board papers and other relevant information are provided to the Committee at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Audit	Board papers and other relevant information are provided to the Committee at least seven (7) calendar days before regular/special board committee meetings. Audit Committee members may refer to the Company's Internal Auditor, External Auditor, Corporate Secretary or any other business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Internal Auditor.
Corporate Governance	Board papers and other relevant information are provided to the Committee at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Compensation	
Risk Management	Board papers and other relevant information are provided to the Committee at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Company's Internal Auditor, External Auditor, Corporate Secretary or any other business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary.
Related Party Transactions	

## 6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
During the conduct of the Annual Board Evaluation, directors are asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and <i>Board Advisors</i> . The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body. Requests for Board advisors are studied. The Board currently employs an Audit Committee advisor who specializes in Taxes in the person of Atty. Serafin U. Salvador, a Board Advisor on Corporate Governance in Mr. Roberto G. Manabat and a Board Advisor on Investments in the person of Mr. Stephen T. Cu Unjieng.	

## 7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
None.		

## D. REMUNERATION MATTERS

### 1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

The Compensation Committee determine the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.

### 2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The Compensation Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.	Executive compensation is composed of salaries, bonuses and fixed per diem for every board meeting attended.	Benchmarks such as industry peer group, compensation studies, and level of responsibilities are used as basis.
Non-Executive Directors		Fixed per diem for every board meeting attended and allowances commensurate to the responsibilities given.	

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
Stockholders ratify all acts made by the Board and Management during the ASM.	27 April 2016
	29 April 2015
	30 April 2014

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

The total remuneration and bonus paid to executive, non-executive and independent directors in 2016 amounted to P225 million. There are no stock options and/or other financial instruments given to directors. There are no advances, credit and car plan granted to directors. There are no life insurance and hospitalization plan for the independent directors. The directors (except independent directors) are covered under the Company's retirement plan.

### 4) Stock Rights, Options and Warrants

#### (a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
None.				

#### (b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

### 5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

The aggregate compensation, inclusive of salary, bonuses, and other annual compensation, paid or incurred in 2015 to the five (5) highest compensated executive officers amounted to P112 million.

## E. BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3	1	-	Yes	The Executive Committee is comprised of non-executive and executive directors and acts on behalf of the Board during the interim times between board meetings. The Committee:  a. Assists the Board in overseeing the implementation of strategies; b. Reviews the major issues facing the organization; c. Undertakes drawing up and closing the Group’s budgets; d. Monitors the operating activities of each business group; e. Defines and monitors the Group’s performance improvement goals; f. Defines Group-wide policies and actions (sustainable development, including environment, health & safety, internal communications, internal control and risk management, innovation and research & technology, purchasing) and oversees their rollout; g. Fosters the sharing and dissemination of best practices in all areas between the business groups;		
Audit	-	1	2	Yes	The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company’s financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company’s internal control systems, its audit plans and auditing processes.		
Corporate Governance	-	-	3	Yes	The Corporate Governance Committee is tasked to assist the Board in its governance related responsibilities, while also performing the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that required Board approval under the Company’s By-Laws. Furthermore, the Committee facilitates the annual performance evaluation of the Company’s Board as a whole, its respective Board Committees, the individual directors and the President.		
Compensation	1	1	1	Yes	The Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.		
Risk Management	-	1	2	Yes	The Risk Management Committee reviews and assesses the effectiveness of the Company’s risk management system in the mitigation of financial and non-financial risks.		
Related Party Transactions	-	1	2	No	The Related Party Transactions Committee reviews all material proposed related party transactions and ensures that the said transactions are done at arms’ length.		

## 2) Committee Members

### (a) Executive Committee

For the period of April 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairperson (NED)	Teresita T. Sy-Coson	27 April 2016	29	29	100	3 yrs.
Member (ED)	Harley T. Sy	27 April 2016	29	26	90	3 yrs.
Member (ED)	Jose T. Sio	27 April 2016	29	28	97	3 yrs.
Member	Frederic C. DyBuncio	27 April 2016	29	27	93	1 yr.

### (b) Audit Committee

For the period of April 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Tomasa H. Lipana	27 April 2016	3	3	100	1 yr.
Member (ID)	Ah Doo Lim	27 April 2016	3	3	100	3 yrs.
Member (NED)	Teresita T. Sy-Coson	27 April 2016	3	3	100	2 yrs.

Disclose the profile or qualifications of the Audit Committee members.

- Tomasa H. Lipana** (Chairperson) is an independent director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is an independent director and Audit Committee Chairperson of various private corporations and a government owned and controlled corporation. She is also a trustee of several non-profit organizations. She is a fellow of the Institute of Corporate Directors. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She was also a CPA Board placer.
- Ah Doo Lim** (Member), a Singaporean, is an independent director of SMIC. He is currently a Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., Linc Energy Limited, and U Mobile Sdn Bhd. He is also a Director of Sateri Holdings Limited, a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and Master's Degree in Business Administration from Cranfield School of Management, England in 1976.
- Teresita T. Sy-Coson** (Member) is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

Describe the Audit Committee's responsibility relative to the external auditor.

In relation to the Company's external auditor, the Audit Committee is tasked to perform the following:

- Review the external auditors' proposed audit scope and approach.
- Review and confirm the independence of the external auditor by obtaining certification from the latter relative to overall relationship with the Company, including non-audit services.



- Resolve any disagreement between Management and the external auditors regarding financial reporting.
- On a regular basis, meet separately with the external auditor.
- Review the scope of the external auditors' review of internal controls over financial reporting, and obtain regular reports on significant findings and recommendations, together with Management's responses.
- Review with Management and the external auditors, the results of the audit, including any difficulties encountered.

**(c) Corporate Governance Committee**

For the period of April 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Ah Doo Lim	2 March 2016	1	1	100	1 yr.
Member (ID)	Joseph R. Higdon	27 April 2016	1	1	100	3 yrs.
Member (ID)	Tomas H. Lipana	27 April 2016	1	1	100	1 yr.

**(d) Compensation Committee**

For the period of April 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Teresita T. Sy-Coson	27 April 2016	2	2	100	10 yrs.
Member (ED)	Jose T. Sio	27 April 2016	2	2	100	10 yrs.
Member (ID)	Joseph R. Higdon	9 Nov. 2016	1	1	100	.6yr

**(e) Risk Management Committee**

For the period of April 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Joseph R. Higdon	9 Nov. 2016	2	2	100	.6 yr
Member (ID)	Ah Doo Lim	27 April 2016	2	2	100	1 yr.
Member (NED)	Teresita T. Sy-Coson	27 April 2016	2	2	100	1 yr.

**(f) Related Party Transactions Committee (created on November 9, 2016)**

For the period of November 2016 – March 2017						
Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Ah Doo Lim	9 Nov. 2016	1	1	100	.6 yr
Member (ID)	Joseph R. Higdon	9 Nov. 2016	1	1	100	.6 yr
Member (NED)	Teresita T. Sy-Coson	9 Nov. 2016	1	1	100	.6 yr

### 3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	No changes were made to the composition of the Executive Committee.	
Audit	Ms. Tomasa H. Lipana replaced Mr. Vicente S. Perez, Jr. in the Committee on April 27, 2016.	Mr. Vicente S. Perez, Jr. is no longer an Independent Director of SMIC.
Corporate Governance	Ms. Teresita T. Sy-Coson and Mr. Vicente S. Perez, Jr. were replaced by Mr. Ah Doo Lim and Ms. Tomasa Lipana in the Committee. Ms. Lipana joined the Committee on April 27, 2016, while Mr. Ah Doo Lim was appointed on March 2, 2016.	Mr. Vicente S. Perez, Jr. is no longer an Independent Director of SMIC. Additional Committee membership changes were effected in line with the Company's thrust to have an all independent director Corporate Governance Committee.
	Chairmanship of the Committee was transferred from Mr. Joseph R. Higdon to Mr. Ah Doo Lim on November 9, 2016.	Change in committee chairmanship was made to balance director workloads.
Compensation	Ms. Tomasa H. Lipana replaced Mr. Vicente S. Perez, Jr. in the Committee on April 27, 2016.	Mr. Vicente S. Perez, Jr. is no longer an Independent Director of SMIC.
	Mr. Joseph R. Higdon replaced Ms. Tomasa H. Lipana in the Committee on November 9, 2016.	Change in committee composition was made to balance director workloads.
Risk Management	Mr. Joseph R. Higdon replaced Ms. Tomasa H. Lipana in the Committee on November 9, 2016.	Change in committee composition was made to balance director workloads.
Related Party Transactions	The Related Party Transactions Committee was created by the Board on November 9, 2016.	

### 4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	The Executive Committee met twenty-nine (29) times from April 2016 to March 2017 to track the progress of the Company's corporate strategy and to discuss necessary actions needed to accomplish said strategy.	
Audit	<p>The Committee met five (5) times in 2016, and performed the following activities:</p> <ol style="list-style-type: none"> <li>1. The Committee provided oversight of the Internal Audit.</li> <li>2. The Committee reviewed and approved the Internal Audit plan, including the scope, methodology, organization structure and staffing.</li> <li>3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the Chief Audit Executive summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern as well as the corresponding management response and action plan.</li> <li>4. The Committee reviewed/discussed with the External Auditor, SGV &amp; Co., the following: <ul style="list-style-type: none"> <li>• The annual audit plan for 2016, including scope, approach, risk-based methods, focus areas and time table;</li> <li>• The results of its examination and action plan to address pending audit issues; and</li> <li>• The assessment of internal controls and quality of financial reporting.</li> </ul> </li> <li>5. The Committee reviewed/discussed the report of SGV &amp; Co. on significant accounting</li> </ol>	

	<p>issues, changes in accounting policies/standards and major pending tax legislations which would impact the Company and its subsidiaries.</p> <p>6. The Committee discussed with SGV &amp; Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.</p> <p>7. The Committee reviewed and approved all audit services provided by SGV &amp; Co, and related audit fees (there was no non-audit service during the year).</p> <p>8. The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.</p> <p>9. The Committee reviewed and endorsed to the Board for approval the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2016, six-month period ended June 30, 2016, and third quarter ended September 30, 2016.</p> <p>10. 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 consolidated audited financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2016.</p> <p>11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditors, SGV &amp; Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV &amp; Co. as External Auditors for 2017.</p>
Corporate Governance	The Corporate Governance Committee met twice in 2016 and reviewed and evaluated the qualifications of candidates nominated to the Board of Directors, and those nominated to positions requiring Board approval under the Company's By-Laws. The Committee ensured that those nominated to the Board met the requirements set forth by the Manual on Corporate Governance. Furthermore, the Committee facilitated the annual performance evaluation of the Board as a whole, its respective Board Committees, the individual directors and the President.
Compensation	The Committee met once in 2016 to amend the Committee's Charter.
Risk Management	The Risk Management Committee was created on March 2, 2016. Before which, the work of the review of the Company's risk was handled by the Audit and Risk Management Committee.
Related Party Transactions	The Related Party Transactions Committee was created on November 9, 2016. Before which, the work of the review of the Company's related party transactions was handled by the Audit Committee.

## 5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	<ol style="list-style-type: none"> <li>1. Assist the Board in overseeing the implementation of strategies;</li> <li>2. Review the major issues facing the organization;</li> <li>3. Undertake drawing up and closing the Group's budgets;</li> <li>4. Monitor the operating activities of each business group;</li> <li>5. Define and monitor the Group's performance improvement goals;</li> <li>6. Define Group-wide policies and actions (sustainable development, including environment, health &amp; safety, internal communications, internal control and risk management, innovation and research &amp; technology, purchasing) and oversee their rollout;</li> <li>7. Foster the sharing and dissemination of best practices in all areas between the business groups.</li> </ol>	
Audit	Implement the action plans made based on the results of the self-assessment conducted following the guideline set forth by SEC Memorandum Circular No. 4, such as:	

	<ul style="list-style-type: none"> <li>• Develop a succession plan for its members and Chair</li> <li>• Reporting to the Board and issuance of certifications on critical compliance issues</li> <li>• Review and approval of management representation letter before submission to external auditor</li> <li>• Obtaining management's assurance on the state of internal controls</li> <li>• Evaluation of compliance with the Code of Conduct for management</li> <li>• Review and approval of audit plans and of fees of external auditor</li> </ul> <p>Review the Company's continual process of good corporate governance, as well as providing approaches and advices for development, and tasking management to look into the evolving ASEAN Corporate Governance initiative from the regulators and advocacy groups to see what other enhancements can be properly pursued.</p> <p>Oversee the effectiveness of the Company's whistleblower policy, so that the whistleblower has the confidence that the Company has the required and appropriate independent procedure to effectively investigate and resolve such possible wrong-doings and non-compliance issues.</p>
Corporate Governance	<p>a. Enhance the process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, and appoint competent, professional, honest and highly-motivated management officers</p> <p>b. Formulate succession plans for top key management positions and review such plan on a regular basis</p> <p>c. Identify areas for improvement of the members of the Board, such as training/continuing education programs or any other form of assistance that directors may need in the performance of their duties</p>
Compensation	<p>a. Periodically review the compensation method for directors, officers and employees so that they are equitable and appropriately corresponds to the respective assigned duties and responsibilities, current business environment and performance results of the Company</p> <p>b. Define goals and evaluate the performance of top management to set reasonable compensation</p>
Risk Management	Institutionalize the risk management assessment process to ensure standardization, effectiveness and efficiency, and continuously monitor key risk areas and performance indicators with due diligence to enable the Company to anticipate and prepare for possible threats to its operational and financial viability.
Related Party Transactions	Review all material proposed related party transactions and ensures that the said transactions are done at arms' length.

## F. RISK MANAGEMENT SYSTEM

### 1) Disclose the following:

(a) Overall risk management philosophy of the company;

<p>a. Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>b. To protect and preserve:</p> <ul style="list-style-type: none"> <li>• our employees' and clients' safety and welfare</li> <li>• the value and condition of properties and assets</li> <li>• our local and global reputation</li> </ul> <p>c. To align risk appetite and strategy.</p>
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- (b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

Under the Company's Audit Committee Charter:

- a. Review the adequacy and effectiveness of the Company's policies and procedures relating to the identification, analysis, management, monitoring and reporting of financial and non-financial risks.
- b. Ensure that Management sufficiently and swiftly manages risks, (i.e. reduction and mitigation across operating units) especially those categorized as having high impact with high probability of occurring.
- c. Advise the Board, in consultation with Management, on the overall risk management program of the Company as it relates to its risk appetite and strategic direction.
- d. May engage a consultant for a more independent assessment of the risk management infrastructure and review different units' best practice.
- e. Meet separately with the Chief Risk Officer to discuss any matters that the Committee or auditors believe should be discussed privately.
- f. Review the details of the Company's related party transactions.

- (c) Period covered by the review;

The period covered was the year 2016.

- (d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The Risk Management Committee's quarterly agenda highlights the assessment of the risk management systems effectiveness. The results of the risk assessment and mitigation exercises are reported to the Committee. Priority areas which have been identified are hazard risks (disaster preparedness), IT risks, financial risks, operations risks.

- (e) Where no review was conducted during the year, an explanation why not.

Not applicable.

## 2) Risk Policy

- (a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Market Risk	The Board and management must constantly scan the business climate and environment and anticipate risks of competition, economic or political instability, and change in consumer behavior that may arise and affect the Company's direction and profitability.	The sustained growth occasioned by economic fundamentals, strong consumer spending, and investment outlook for the country provides an upside risk where opportunities for expansion and higher profitability are available.  Economic briefings from experts are held regularly and board advisers and consultants are engaged for possible new ventures or investment optimization options.
Reputational Risk	The vision statement states that SM envisions itself to be a Filipino brand that is world-class, a market leader and innovator to provide best-value products and services to millions of its customers.	In view of the scale and visibility of SM in practically all the major cities in the country, clear, accurate and coordinated communication program is key to help educate the public. The Investor Relations Department oversees this function of coordinating the external communication platform of SM.

Hazard Risk	As an asset-based company, we ensure the protection and preservation of the value and condition of our properties and assets.	<p>To be able to eliminate, lessen or transfer risks attributed to natural or man-made disasters causing business disruptions or at worse, loss of lives or property.</p> <p>To ensure that the workforce and the assets are adequately covered by sufficient insurance and health maintenance programs and by all-risk policies respectively, for any eventuality.</p> <p>To put in place a reliable and tested disaster preparedness plan and business continuity plan that aim not only to mitigate risk but to revive operations at a reasonable and agreed recovery time under different business disruption scenarios.</p>
Financial Risk	To manage risks arising from the Group's financial instruments such as interest rate risk, foreign currency risk, liquidity risk, credit risk, material misreporting and equity price risk.	<p>The Board reviews and agrees policies for managing each of the financial risks.</p> <p>The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep a 50:50 debt equity ratio.</p> <p>The Group likewise enters into interest rate swaps. These swaps economically hedge the underlying debt obligations.</p> <p>Interest of fixed rate debts, if later found priced above going market rates, are refinanced for lower cost and longer term.</p> <p>Foreign currency risk exposure and cash flow stability risks are covered by entering into foreign currency swap contracts, foreign currency call options, non-deliverables and foreign currency range options.</p> <p>Liquidity Risks that may arise from fund-raising to meet financial commitments are mitigated by using internally generated funds and proceeds from debt and equity issues and sale of certain assets. The Group regularly reviews projected and actual cash flow information and assesses conditions of financial markets.</p> <p>Credit Risk is mitigated by the Group's policy to trade only with recognized, creditworthy related and third parties. Customers who wish to trade on credit are subject to credit verification procedures. Further, receivable balances are monitored regularly.</p> <p>Equity price risk is mitigated by closely monitoring the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.</p>
IT Risks	Adopted Key Principles Of Confidentiality, Integrity & Availability Of All Information Assets & Systems	The Board approved policies covering Controls, Policies, Standards, Processes, Guidelines, Organizational Structures & Hardware-Software Security Solutions

		<p>Importance of Awareness, Training &amp; Ownership Of Information Security Policy By All Employees</p> <p>Implement Quality Management Using Global Standards i.e. ISO ISMS 27001</p>
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(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p>The following risk management policy applies to all the subsidiaries of the Group:</p> <p>(i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>(ii) To protect and preserve:</p> <ul style="list-style-type: none"> <li>our employees' and clients' safety and welfare</li> <li>the value and condition of properties and assets</li> <li>our local and global reputation</li> </ul> <p>(iii) To align risk appetite and strategy.</p>		

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
<p>Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines:</p> <ul style="list-style-type: none"> <li>Majority shareholders may dominate major Company decisions</li> <li>Lack of transparency on the actions and decisions of majority shareholders</li> <li>Abusive and inequitable conduct on the part of majority shareholders</li> <li>Rights of minority shareholders may not be upheld and protected</li> </ul> <p>The Company's Manual on Corporate Governance provides for the rights of minority shareholders.</p>

### 3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Hazard Risks	Low Risk	<ul style="list-style-type: none"> <li>Periodic review of sufficiency of insurance coverage for our work force and property assets.</li> <li>Review of financial strength, service quality and risk-retention policy of insurance providers in collaboration with BDO Insurance.</li> <li>Periodic drills conducted for fire and earthquake led by Admin Dept. in collaboration with building property management group, fire department.</li> <li>Creation of Disaster Preparedness Committee. Finalize Disaster Preparedness Plan and Business Continuity Plans.</li> </ul>

		<ul style="list-style-type: none"> <li>Continuing Tie up with Lifeline Ambulatory Services.</li> <li>Strict compliance to building codes and global standards, engagement of established consultants to assess and confirm structural soundness of our buildings.</li> <li>Regular updating of Risk Logs indicating the identification, assessment and mitigation of risks.</li> </ul>
<b>IT Risks</b>  <i>Data Center capacity and support capability</i>  <i>Mission critical applications disruptions</i>  <i>Internet connection risks</i>  <i>Hacking risks</i>	Low Risk	<ul style="list-style-type: none"> <li>Implemented Data Center Expansion Project</li> <li>Implemented SAP Fail-over set up</li> <li>Implemented Enterprise Network Project</li> <li>Implemented Enterprise Security Project, engaged penetration and vulnerability assessment by 3<sup>rd</sup> party</li> </ul>
<b>Financial Risks</b>	Low Risk	Strict implementation of: <ul style="list-style-type: none"> <li>Gearing policies</li> <li>Fixed and variable interest rate guidelines</li> <li>Credit policies</li> <li>Hedging policies</li> <li>Cash-flow review policies</li> </ul>
<b>Compliance and Legal Risks</b>	Low Risk	<ul style="list-style-type: none"> <li>Close coordination between Compliance Officer, Legal Department, Corporate Governance and Internal Audit Department on regular and new compliance matters.</li> <li>Policy on Accountability, Integrity and Vigilance (PAIV)</li> <li>SGV likewise provides regular follow ups on pending compliance matters.</li> </ul>

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

<b>Risk Exposure</b>	<b>Risk Assessment</b> (Monitoring and Measurement Process)	<b>Risk Management and Control</b> (Structures, Procedures, Actions Taken)
The holding company provides down-line policy support and coordination to the subsidiaries and affiliates with regard to Corporate Governance, Risk Management, Finance, Internal Audit, Investor Relations, Human Resources, Compliance, Legal matters.		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

<b>Committee/Unit</b>	<b>Control Mechanism</b>	<b>Details of its Functions</b>
Audit Committee	The Chief Internal Auditor/ Chief Audit Executive	The Committee directly interfaces with the internal and external auditors in the



	functionally reports to the Audit Committee.	conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans and auditing processes.
Executive Committee/ Management Committee	Has over-all management control over departments and instrumentalities of the Company.	Ensures the achievement of goals and strategies set by the Board.
PAIV Committee	A management committee that handles whistle blower policy cases.	Upon receipt of an incident report, the Committee conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee.
Risk Management Committee	The Chief Risk Officer (CRO) functionally reports to the Risk Management Committee.	The Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.
Related Party Transactions Committee	The Related Party Transactions Committee is composed only of non- executive directors, majority of which are independent.	The Related Party Transactions Committee reviews all material proposed related party transactions and ensures that the said transactions are done at arms' length.

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

The Company adopts the Committee of Sponsoring Organizations of the Treadway Commission or COSO framework of internal control system which has five components – control environment, risk assessment, information and communication, control activities and monitoring.

COSO defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations".

The Company also adopts the model "Three Lines of Defense in Effective Risk Management and Control". The three lines of defense are operational management, risk management and compliance; as well as internal audit.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board of Directors, through the Audit Committee and the Risk Management Committee, has reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors. The Board found the internal control system to be effective.

(c) Period covered by the review;

The period covered is the year 2015. The review is conducted annually.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

The Company's internal controls are reviewed continuously throughout the year by the Internal Auditor. Audit reports are issued to the Audit Committee upon completion of the audit. Significant findings and issues are taken up in the quarterly meetings of the Audit Committee.

The directors' criteria for assessing the effectiveness of the internal control system include risks involved, materiality of the amounts, and pervasiveness of the controls as well as the cost and benefit from the exercise.

(e) Where no review was conducted during the year, an explanation why not.

N/A

## 2) Internal Audit

### (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
<p>The Company's Internal Auditor conducts reviews of the Company's internal control system as mandated in its charter. Under its Charter, the primary purpose of Internal Audit is to provide an independent, objective, reasonable, systematic and disciplined evaluation of the Company's risk management, organization and procedural controls to ascertain that:</p> <ul style="list-style-type: none"> <li>There is adequate and effective internal control system, including operational, financial reporting, risk management and information technology security controls.</li> <li>Significant financial, managerial and operating information are accurate, reliable and timely;</li> <li>Employee's actions are in compliance with policies, standards, procedures and applicable laws and regulations;</li> <li>Resources are appropriately recorded and adequately safeguarded;</li> <li>Quality and continuous improvement are fostered in the control processes of the Company;</li> <li>Risks are appropriately identified and</li> </ul>		In-house.	Mr. Anastacio C. Balubar	To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit 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 Committee and Management.

<p>managed;</p> <ul style="list-style-type: none"> <li>• Interaction with the corporate governance group occurs as needed; and</li> <li>• Significant legislative or regulatory issues impacting the Company are recognized and addressed appropriately.</li> </ul> <p>The Charter requires the Internal Audit to do the following:</p> <ul style="list-style-type: none"> <li>• Develop an annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit Committee for review and approval.</li> <li>• Implement the approved annual audit plan, including special tasks or projects mandated by the Audit Committee.</li> <li>• Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.</li> <li>• Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit and Risk Management Committee of the results.</li> <li>• Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit to the organization at a reasonable overall cost.</li> </ul>			
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**(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?**

Yes. As stated in both the Audit Committee Charter and the Internal Audit Charter, the appointment/removal of the Internal Auditor requires the approval of the Audit Committee.

**(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?**

To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit 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 Committee and Management.

The Internal Auditor shall be accountable to the Board, thru the Audit Committee, and shall;

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes

<p>for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.</p> <ul style="list-style-type: none"> <li>• Report significant issues related to the processes for controlling the activities of the organization, including potential improvements to those processes and provide information concerning such issues through resolution.</li> <li>• Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.</li> <li>• Coordinate with the other control and monitoring functions (risk management, compliance, security, legal, external audit).</li> </ul>
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**(d) Resignation, Re-assignment and Reasons**

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
None. Not applicable.	

**(e) Progress against Plans, Issues, Findings and Examination Trends**

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

<b>Progress Against Plans</b>	Internal Audit conducts reviews in accordance with its Approved Annual Audit Plan. Such annual plan is based on a detailed risk assessment. Every quarter, Internal Audit reports to the Audit Committee the status of the realization of its work plan.
<b>Issues<sup>5</sup></b>	Issues noted involved implementation of applicable accounting principles, tax rulings and real estate industry regulations. These issues are discussed with the concerned department heads and chief executives to come up with the best resolution. Consultation with external parties is also done to ascertain that the Company adopts the best practices.
<b>Findings<sup>6</sup></b>	Reported findings resulted to enhancements of financial, operational, and administrative controls. Strict compliance to established policies and procedures is emphasized to the process owners.  All findings and issues are summarized in a detailed report distributed to all department heads involved for the execution of agreed upon action plans. An executive summary is issued to the President, other chief executives and all Audit Committee members to highlight key issues and findings as well as the recommendations and related status. Moreover, these key issues and findings are formally discussed by the Internal Audit head during the quarterly Audit Committee meetings.
<b>Examination Trends</b>	High risk areas are reviewed more than once a year.  Some examinations are short term such as inventory analysis, cash operations closing procedures audit, land banking review and user access authorization.  Some audits are done on a longer period such as review of completed projects; sales reservation and documentation process as well as IT general and application controls. Some reviews are done upon request of Management.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review

<sup>5</sup> "Issues" are compliance matters that arise from adopting different interpretations.

<sup>6</sup> "Findings" are those with concrete basis under the company's policies and rules.

cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

**(f) Audit Control Policies and Procedures**

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

Policies & Procedures	Implementation
The Company has existing policies and procedures covering areas such as procurement, information technology, human resources and finance. These are periodically reviewed and updated.	

**(g) Mechanisms and Safeguards**

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company’s shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Insider Trading Policy Conflict of Interest Policy	Conflict of Interest Policy	Conflict of Interest Policy	Conflict of Interest Policy
Conflict of Interest Policy	<p>The Company aims to conduct business in accordance with the highest standards of business ethics. To this end, all business dealings should be compliant with all applicable laws and must not in any way compromise the good name and reputation of the Company.</p> <p>All directors, officers and employees shall act with utmost integrity and shall not engage in unfair dealing practices. The Company prohibits any conflict of interest, unfair competition, breach of trust, insider trading, or any other dishonest acts.</p>		

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company’s full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

SMIC’s Mr. Henry Sy, Sr., Chairman of the Board, Mr. Harley T. Sy, President, and Mr. Jose T. Sio, EVP and CFO, attest to the Company’s full compliance with the SEC Code of Corporate Governance and the Company’s Manual on Corporate Governance, and ensure that all directors, officers and employees adhere and fully comply with the Code and Manual and have not deviated from such.

**H. ROLE OF STAKEHOLDERS**

- 1) Disclose the company’s policy and activities relative to the following:

	Policy	Activities
Customers' welfare	Under the Company’s Code of Ethics, all directors, officers and employees shall	The Company provides its customers with quality care and service in the provision of goods and services under terms and conditions that are

	be guided by fairness, professionalism, courtesy and respect when dealing with customers and shall endeavor at all times to provide excellent and diligent service.	<p>fair and satisfactory. All customers are given fair and proper treatment and are provided with complete, correct and actual information.</p> <p>The Company also ensures that the goods and services it provides meets all agreed upon and/or legally required standards for consumer health and safety, including those pertaining to health warnings and safety information. Furthermore, the Company strives to meet the needs of its vulnerable and/or disadvantaged customers.</p>
Supplier/contractor selection practice	Under the Company's Code of Ethics, all directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company. They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.	<p>The Company observes propriety and acts with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company). The Company adheres to its principles of healthy competition, equal opportunity and fair treatment of business partners.</p> <p>The Company has a bidding committee to screen, review and approve major contracts with contractors and suppliers to ensure that it is conducted on an arm's length basis.</p> <p>Securing proposal from at least three (3) reputable contractors/service providers and selecting best offer consistent with identified business solution.</p>
Environmentally friendly value-chain	Under the Code of Ethics, the Company is committed to the protection of the environment and shall comply with all applicable environmental laws and regulations.	<p>The Company ensures the environmental friendliness of its operations, and contributes to the overall sustainability of the physical environment where the Company operates. The Company is committed to the protection of the environment and complies with all applicable environmental laws and regulations.</p> <p>The Company also assesses and addresses in its business strategy, the foreseeable environmental, health and safety related impacts associated with the processes, goods and services necessary to the operations of its business and strives to avoid or, when unavoidable, mitigate them.</p> <p>Furthermore, the Company continually seeks to improve its corporate environmental performance through its supply chain by adopting technologies, developmental practices and other related programs that encourage an environmentally friendly value-chain.</p>
Community interaction	Per the Code of Ethics, the Company shall initiate and participate in charitable causes and community organizations to improve the quality of life of the community where it operates, through education,	The Company respects relevant laws and/or regulations in the community where the Company operates. Compliance with those laws and regulations is strictly monitored to prevent any damage to the quality of life of society, surrounding communities and the environment. Furthermore, the Company keeps in close cooperation with its CSR arm, SM Foundation.

	health care and livelihood programs.	
Anti-corruption programs and procedures?	<p>The Company's whistle blower policy was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization.</p> <p>The Company also employs policies against Acceptance of Gifts from Business Partners, as well as Travel Sponsored by Business Partners.</p>	Under the Company's whistleblowing policy, any stakeholder may submit an incident report on suspected or actual violations of the Code of Ethics and Discipline or any other applicable law or regulation. Upon receipt of an incident report, management is tasked to conduct an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Anyone who in good faith reports a violation of the Code or policies or law shall not be retaliated upon or suffer harassment or adverse employment consequence.
Safeguarding creditors' rights	Under the Code of Ethics, all directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with SMPHI. They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.	<p>The Company observes propriety and acts with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company). The Company adheres to its principles of healthy competition, equal opportunity and fair treatment of business partners.</p> <p>The Company strictly respects agreements with creditors, manages loans according to lending objectives, ensures timely repayment of loans and interests, honors loan conditions as agreed and competently operates the business to assure creditors about the Company's financial standing and loan repayment capabilities.</p>

- 2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

Yes, the Company published a separate comprehensive sustainability - Environmental, Social and Governance report titled "Creating a Sustainable Future," in 2016. Said report highlights the Company's corporate social responsibility and sustainability efforts through its various subsidiaries and associates. The full report may be found on the Company's website.

- 3) Performance-enhancing mechanisms for employee participation.

- (a) What are the company's policy for its employees' safety, health, and welfare?

The Code of Ethics provides that the Company shall maintain a safe, productive and conducive workplace and environment and comply with all applicable health, safety and environmental laws.  
*Data on health, safety and welfare of employees may be viewed in SMIC's ESG Report and website.*

- (b) Show data relating to health, safety and welfare of its employees.

The Company encourages good health and wellness through its various sports and fitness programs. Employees may use the courts and fitness facilities in the workplace and are encouraged to participate in HRD supported aerobic and dance activities. The Company also conducts orientations and learning sessions on health related matters, such as breast and cervical cancer awareness and detection; influenza and hepatitis B prevention and drug abuse awareness, to name a few. Furthermore, the Company facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and has recently employed the services of a 24 hour roving ambulance service. The Company has also adopted holiday themed activities, to foster camaraderie and provide balance in a fast paced work atmosphere.

*Data on health, safety and welfare of employees may be viewed in SMIC's ESG Report and website.*

(c) State the company's training and development programs for its employees. Show the data.

The Company has Curriculum-Based Training Program with customized trainings for the various levels in the organization. The courses are designed to develop or enhance competencies:  
 Basic Training Program – A curriculum for Rank and File employees designed to develop basic professional skills to enhance productivity.  
 Supervisory Development Program – A curriculum for Officer and Supervisor levels designed to develop administrative, leadership, and decision-making skills. The focus is on supervising direct reports and managing specific work responsibilities.  
 Managerial Development Program – A curriculum for Department-level Managers designed to develop operations level management and implementation skills. The focus is on the management of specific workgroup.  
 Senior Managerial Development Program – A curriculum for Senior-level Managers designed to develop strategic management and implementation skills at the strategic business unit level.  
 Executive Development Program – A curriculum for executives designed to develop strategic –level management, implementation and control of multiple strategic business units or entire enterprise.  
*Data on training and development programs of employees may be viewed in SMIC's website.*

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

The Company implements an annual merit-based salary increase system. Salary increases are based on the results of the individual employee's performance.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.

The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter.

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

(a) Holding 5% shareholding or more\*

Shareholder	Number of Shares	Percent	Beneficial Owner
Teresita T. Sy	85,628,175	7.11	same as the record owner
Harley T. Sy	87,792,438	7.29	same as the record owner
Hans T. Sy	98,956,803	8.22	same as the record owner
Henry T. Sy, Jr.	87,690,675	7.28	same as the record owner
Herbert T. Sy	98,940,675	8.21	same as the record owner
Elizabeth T. Sy	70,084,482	5.82	same as the record owner
PCD Nominee Corp. (Filipino)	107,063,815	8.89	various clients
PCD Nominee Corp. (Non-Filipino)	390,914,434	32.45	various clients

\*as of February 28, 2017



Name of Senior Management	Amount of Holdings	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Henry Sy, Sr.	4,773,825	-	0.40
Teresita T. Sy	85,628,175	-	7.11
Harley T. Sy	87,792,438	-	7.29
Henry T. Sy, Jr.	87,690,675	-	7.28
Jose T. Sio	21	-	0.00
Ah Doo Lim	187	-	0.00
Joseph R. Higdon	187	-	0.00
Tomas H. Lipana	150	-	0.00
Grace F. Roque	0	-	0.00
Marianne M. Guerrero	0	-	0.00
Elizabeth Anne C. Uychaco	0	-	0.00
Franklin C. Gomez	0	-	0.00
Cecilia Reyes-Patricio	130	-	0.00
Corazon P. Guidote	3,187	-	0.00
Frederic C. DyBuncio	0	-	0.00
Wilson H. Go	0	243	0.00
Marcelo C. Fernando, Jr.	0	-	0.00
Elmer B. Serrano	0	-	0.00
	265,889,218	-	22.08

\*as of February 28, 2017

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	YES
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES
Training and/or continuing education program attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	YES
Attendance details of each director/commissioner in respect of meetings held	YES
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
Sycip, Gorres, Velayo & Co.	P2,000,000	None.

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

- a. website
- b. briefings/forums/meetings/roadshows
- c. press releases
- d. financial reports/other reports
- e. social media

5) Date of release of audited financial report:

The audited financial report was released on March 1, 2017 – within sixty (60) days from the end of the financial year.

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	YES
Financial statements/reports (current and prior years)	YES
Materials provided in briefings to analysts and media	YES
Shareholding structure	YES
Group corporate structure	YES
Downloadable annual report	YES
Notice of AGM and/or EGM	YES
Company's constitution (company's by-laws, memorandum and articles of association)	YES

7) Disclosure of RPT

RPT	Relationship	Nature	Value (in thousands) For 2016
<b>Bank Associates</b>			
Cash placement and investment in debt securities	Bank Associates	Cash placement and investment in debt securities	130,427,891
Interest receivable	Bank Associates	Interest receivable	431,533
Interest income	Bank Associates	Interest income	2,401,642
Interest bearing debt	Bank Associates	Interest bearing debt	9,831,165
Interest payable	Bank Associates	Interest payable	36,915
Interest expense	Bank Associates	Interest expense	535,828
Rent receivable	Bank Associates	Rent receivable	110,669
Rent income	Bank Associates	Rent income	769,720
Management fee receivable	Bank Associates	Management fee receivable	31,905
Management fee income	Bank Associates	Management fee income	4,368
Escrow fund	Bank Associates	Escrow fund	339,974
<b>Retail and Other Entities</b>			
Rent receivable	Retail and Other Entities	Rent receivable	471,477
Rent income	Retail and Other Entities	Rent income	1,516,273
Management fee receivable	Retail and Other Entities	Management fee receivable	218,757
Management fee income	Retail and Other Entities	Management fee income	393,564

Dividend receivable	Retail and Other Entities	Dividend receivable	24,000
Dividend income	Retail and Other Entities	Dividend income	-
Due from related parties	Retail and Other Entities	Due from related parties	631,342
Due to related parties	Retail and Other Entities	Due to related parties	708,767
Notes receivable/long term not	Retail and Other Entities	Notes receivable/long term not	7,857,563
Interest receivable	Retail and Other Entities	Interest receivable	35,760
Interest income	Retail and Other Entities	Interest income	316,633

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

- The terms and conditions on related party transactions are maintained at arms-length and are properly documented. Such transactions are extended at terms no less than favorable than could have been obtained if the transactions were with unrelated parties.
- Related party transactions are reviewed by the Related Party Transactions Committee and are disclosed in the financial statements.
- Ownership of SMIC in various subsidiaries and affiliates are properly disclosed in the parent and consolidated financial statements.

## J. RIGHTS OF STOCKHOLDERS

### 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

#### (a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

<b>Quorum Required</b>	Per the Company's By-Laws, <i>at each meeting of the stockholders', the holders of a majority of the outstanding capital stock of the Corporation having voting powers, who is or are present in person or represented by proxy, shall constitute a quorum for the transaction of business, save in those cases where the Corporation Code requires the presence at the meeting, in person or by proxy, of a greater proportion of the outstanding capital stock.</i>
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#### (b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

<b>System Used</b>	Vote of stockholders
<b>Description</b>	Corporate acts are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company.

#### (c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
None.	

## Dividends

Declaration Date	Record Date	Payment Date
April 27, 2016	May 12, 2016	May 25, 2016

### (d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>Notices of the Annual Stockholders' Meeting are given to all stockholders at least 21 business days before the meeting to provide them with enough time to examine the information. The Notice includes essential and adequate facts on all items on the agenda for consideration and approval of the stockholders.</p> <p>As provided for in the Company's Manual on Corporate Governance, minority stockholders have the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Information Statement</li> </ul>
<p>To facilitate stockholders who cannot attend the meeting, they are encouraged to fill out, date, sign and send a proxy. For corporate stockholders, the proxies should be accompanied by a Secretary's Certificate on the appointment of the corporation's authorized signatory.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Proxy Forms</li> <li>• Information Statement</li> </ul>
<p>To ensure that all stockholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairs and Members, Senior Management, Corporate Secretary and the Independent Auditors are always present during the Annual Stockholders' Meeting. The meeting agenda provides an opportunity for stockholders to freely express their views and raise their concerns at the meeting.</p>	<ul style="list-style-type: none"> <li>• Notice of the Annual Stockholders' Meeting</li> <li>• Information Statement</li> </ul>

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - a. Amendments to the company's constitution
  - b. Authorization of additional shares
  - c. Transfer of all or substantially all assets, which in effect results in the sale of the company

Corporate acts such as amendments to the Company's constitution, authorization of additional shares, and the transfer of all or substantially all assets, which in effect results in the sale of the Company, are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company. The agenda enclosed in the Notice of Annual Stockholders' Meeting would include such corporate acts for the consideration and approval of the stockholders.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

Yes, the Company observes the minimum of 21 business days for the release of ASM notices. As may be seen in the date that the Notice of ASM was sent out (29 February 2016) and the Date of the Annual Stockholders' Meeting (27 April 2016).

- a. Date of sending out notices: 29 February 2016
- b. Date of the Annual/Special Stockholders' Meeting: 27 April 2016

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

The floor was opened to questions, but no questions were asked.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of the ASM held on April 29, 2015	694,879,389 (97.89%)	0	222,020 (0.03%)
Approval of the Annual Report for the year 2015	694,879,389 (97.89%)	0	222,020 (0.03%)
Ratification of all acts of the Board of Directors and Management from the previous ASM to date of the current ASM	694,879,389 (97.89%)	0	222,020 (0.03%)
Declaration of 50% Stock Dividend	694,925,519 (97.90%)	175,890 (0.02%)	0
Approval of Increase in Authorized Capital Stock from P12B to P28B and the Amendment of Article Seven of the Articles of Incorporation to Reflect the Capital Increase	691,683,693 (97.44%)	175,890 (0.02%)	0
Election of Directors to serve for the period of 2016-2017, or until their successors shall have been duly elected and qualified.	5,512,056,870 (99.12%)	12,918,910 (0.23%)	35,835,492 (0.65%)
Re-appointment of Sycip, Gorres, Velayo & Co. as external auditor for the period of 2016-2017.	695,101,409 (97.93%)	0	0

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

The results of the votes taken during the most recent ASM were published on 27 April 2016.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None.	

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Teresita T. Sy Henry T. Sy, Jr. Harley T. Sy Jose T. Sio Ah Doo Lim Joseph R. Higdon Tomas H. Lipana	27 April 2016	may be by ballot if requested by voting stockholders	50.41%	37.98%	88.39%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

Yes. The Company's External Auditor serves as the independent party that counts/validates votes during the ASM.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. Per the Company's By-Laws, common shares carry one vote for one share.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Notary	Notarization of proxies is not required.
Submission of Proxy	Proxies must be filed with the Corporate Secretary at least five (5) days before the stockholders' meeting.
Several Proxies	Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Validity of Proxy	In compliance with the Corporation Code, unless otherwise provided in the proxy, said proxy shall only be valid for the meeting for which it is intended. No proxy shall be valid or effective for a period longer than five (5) years.
Proxies executed abroad	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation, regardless if they are abroad.
Invalidated Proxy	Two inspectors may be appointed by the Board of Directors before or at each meeting of the stockholders of the corporation, at which an election of directors shall take place; the inspectors shall receive and take charge of all proxies and ballots and shall decide all questions touching upon the qualifications of voters, the validity of proxies and the acceptance and rejection of votes.
Validation of Proxy	
Violation of Proxy	

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Based on the Company's By-Laws, <i>except as otherwise provided by law, written or printed notice of all annual and special meetings by stockholders, stating the place and time of the meeting and, if necessary, the general nature of the business to be considered, shall be transmitted by personal delivery, mail, telegraph, facsimile or cable to each stockholder on record entitled to vote thereat at his last known address appearing on the corporate books of the Corporation at least fifteen (15) business days before the date of the meeting, unless a shorter period is or hereafter allowed under the law or the rules of the Securities and Exchange Commission. Except where expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. If any stockholder shall</i>	In practice, the Company sends out notice of annual or special stockholders' meeting at least twenty-one (21) calendar days before the actual meeting. Included with the notice are the documents required for proxy voting, copies of the annual report, information statement and other relevant materials pertaining, but not limited to information on nominated directors and external auditors (for appointment or re-appointment) and resolutions to be taken up during the meeting.

*in person or by attorney-in-fact authorized in writing or by telegraph, cable or facsimile, waive notice of any meeting, whether before or after the holding of such meeting, notice need not be given to him. Notice of any adjourned meeting of the stockholders shall not be given, except when expressly required by law. No failure or irregularity of notices of any regular meeting shall invalidate such meeting at which all the stockholders are present or represented and voting without protest.*

(i) Definitive Information Statements and Management Report

<b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b>	1,244
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b>	5 April 2016
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b>	5 April 2016
<b>State whether CD format or hard copies were distributed</b>	CD formats were distributed.
<b>If yes, indicate whether requesting stockholders were provided hard copies</b>	Yes, stockholders were provided hard copies.

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Yes
The auditors to be appointed or re-appointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	Yes
The amount payable for final dividends.	N/A *
Documents required for proxy vote.	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

\* The amount payable for final dividends is not disclosed in the Notice of Annual Stockholders' Meeting. The amount of final dividends is determined at the Board Meeting scheduled on the day of the ASM.

## 2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
Manual on Corporate Governance	The Company's Manual on Corporate Governance provides for the rights of its minority stockholders. Rights include, but are not limited to the following:

	<ul style="list-style-type: none"> <li>• Voting Rights</li> <li>• Appraisal Right</li> <li>• Inspection Right</li> <li>• Right to Information</li> <li>• Right to Dividends</li> </ul>
Code of Ethics	<p>The Company's Code of Ethics provide for the following:</p> <ul style="list-style-type: none"> <li>• The Company respects and protects the rights of its shareholders. The Company shall adopt strategies and plans with the end view of increasing shareholder value.</li> <li>• The Company shall maintain complete and accurate books of accounts and records in accordance with applicable laws and standards. The Company shall also ensure an independent audit of its financial statements by external auditors. The Company shall maintain a system of internal controls to ensure that financial reports present fairly the financial position and operations results of the Company.</li> <li>• Shareholders shall be provided with complete, accurate, material and timely information regarding their investment and the Company's operations. To this end, the Company undertakes to publicly disclose all material information, including its results of operations and financial position.</li> </ul>

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes. Under the Company's Corporate Governance Manual, the right to nominate candidates to the Board is included in the general rights of shareholders, specifically the minority stockholders. As is expressly explained in the Company's information statements, specifically the *Voting Rights* and *Voting Procedures*, prior to the ASM, The Corporate Secretary sets a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within the said period are valid. A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director.

#### K. INVESTORS RELATIONS PROGRAM

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

For financial results, the disclosure is quarterly. All results have to be presented to the audit committee and the board for approval and eventually approved by the Chief Information Officer for distribution to the public. One off items such as material disclosures relating to capital expenditures, fund raisings, project launches, etc. are disclosed upon approval of the management committee and the chief information officer.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	<ul style="list-style-type: none"> <li>• Assist investors in making investment decisions with regard to shares of SM and its listed subsidiaries.</li> <li>• Guide analysts in formulating their forecasts and recommendations with regard to the valuation and</li> </ul>



	prospects of SM and its listed subsidiaries. <ul style="list-style-type: none"> <li>• Provide the regulators, the media and the general public with the most current information about SM Investments and all of its core businesses which will have a material impact on the company's overall growth and profitability.</li> <li>• Ensure that material disclosures are immediately disseminated without prejudice to any one group</li> </ul>
(2) Principles	<ul style="list-style-type: none"> <li>• Transparency and accountability to all existing and potential investors</li> <li>• Fairness and level playing field for all stakeholders</li> </ul>
(3) Modes of Communications	<ul style="list-style-type: none"> <li>• Direct: One-on-one meetings, roadshows, investor conferences, teleconference and video conference</li> <li>• Web based: Website, email services Analyst and media briefings, press conferences, TV/radio guestings</li> <li>• Social media: Twitter</li> <li>• Print: PSE/SEC filings, annual reports, powerpoint presentations, press releases, speeches</li> </ul>
(4) Investors Relations Officer	Ms. Corazon P. Guidote, SVP for Investor Relations (cora.guidote@sminvestments.com)

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Due diligence, benchmarking, market dynamics, long-term sustainability of the business, synergies with the whole group, cost implications, core competency, board approval, regulatory approvals. All these are done for both acquisition and sale of assets.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

The names of the independent parties vary and will depend on the type of transactions. SM deals with a host of investment banks, external auditors, third party appraisers, legal and tax consultants.

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
MEDICAL	
Medical Missions	1,131 mission; 840,313 beneficiaries
Oral Health Program (Special program)	271 student beneficiaries
Blood Bank for SM Employees	321,300ml of blood collected; 714 employee donors
Operation Tulong Express Medical Missions	17,100 families; residents within vicinity of calamities
Felicidad Sy Health & Wellness Centers 115 health centers/facilities renovated/refurbished	<ul style="list-style-type: none"> <li>• Indigent families within the vicinity of SM Malls</li> <li>• Public Health Center constituents</li> <li>• Soldiers &amp; Personnel and their families</li> </ul>
EDUCATION	
SM College Scholarship Program	1,500 current scholars; 2,160 graduates nationwide

Technical Vocational Program	467 graduates nationwide
School building construction, repair, donation of school equipment	75 school buildings with 227 classrooms
LIVELIHOOD	
Kabalikat Sa Kabuhayan Farmers Training Program	100 KSK trainings conducted for 12,750 small scale farmers
Skills Training (Hospitality, F & B, Wait Service)	315 beneficiaries
Animal Dispersal (Hog, Free Range Chicken, Carabao)	Residents of Nasugbu, Batangas
OTHER PROGRAMS	
Support for Children and Youth Organizations	Child Protection Network, Children of Inmates of Correctional Inst. for Women, Children's Hour Phils., Inc., CURE Our Child Foundation, Inc., etc.
Support for Organizations for the Disabled	Create a Job for the Disabled, Handicapped Care Association, Philippine Institute for the Deaf, Autism Society of the Phil., etc.
Support for Health Organizations	Philippine Cancer Society, Philippine Leprosy Mission, Inc., Philippine Tuberculosis Society, Inc., Philippine Business for Social Progress, etc.

For more information on SM's Corporate Social Responsibility Programs, kindly refer to the Environmental, Social and Governance (ESG) Report or the SM Foundation, Inc. and/or SM Cares websites.

#### M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
<b>Board of Directors</b>	<p>Under the guidance of the Corporate Governance Committee, the Board conducts an annual performance self-evaluation. The performance evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for by the Manual on Corporate 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.</p> <p>Directors are also asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their</p>	<p>a. Diversity of competencies</p> <p>b. Adequate knowledge of different risks</p> <p>c. Industrial background</p> <p>d. Academic qualifications</p>
<b>Board Committees</b>		<p>e. Work in general</p> <p>f. Decision making</p> <p>g. Discussions on short &amp; long term developments</p> <p>h. Discussions on business strategies and plans</p> <p>i. Discussions on risks and regulations</p> <p>j. Promotion of good governance principles</p>

	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.	k. Promotion of continuing education
<b>Individual Directors</b>		a. Independence b. Participation c. Expertise
<b>CEO/President</b>		a. effective leadership b. integrity c. diligence d. corporate governance

#### N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
Any violation of a provision found in the Manual on Corporate Governance.	a) In case of first violation, the subject person shall be reprimanded. b) Suspension from the office shall be imposed in case of a second violation. The duration of the suspension shall depend on the gravity of the violation. This shall not be applicable to directors. c) For third violation, the maximum penalty of removal from office shall be imposed. d) With regards to directors, the provision of Section 28 of the Corporation Code which requires a vote of shareholders representing 2/3 of the outstanding capital stock shall be observed.

## SECRETARY'S CERTIFICATE

### KNOW ALL MEN BY THESE PRESENTS:

I, **Atty. MARIANNE M. GUERRERO**, Filipino, of legal age, and being the duly elected and incumbent Assistant Corporate Secretary of **SM INVESTMENTS CORPORATION** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal place of business at the 10<sup>th</sup> Floor, OneE-Com Center, Harbor Drive, Mall of Asia Complex, Pasay City, do hereby certify that:

At the regular meeting of the Board of Directors of the Corporation held on March 1, 2017 at the Board Room, 17<sup>th</sup> Floor, L.V. Locsin Building, 6752 Ayala Avenue corner Makati Avenue, Makati City, in which meeting a quorum was present and acting throughout, the Board approved the updates and changes in its Annual Corporate Governance Report, to wit:

- A. Board Matters
  - a. Update of Limit on Number of Board Seats Allowed (pg. 7)
  - b. Update of Director Shareholding in the Company (pg. 8)
  - c. Update of Criteria for Permanent Disqualification of a Director (pg. 14)
  - d. Update of Criteria for Temporary Disqualification of a Director (pg. 16)
- B. Board Meetings & Attendance
  - a. Update of Attendance of Directors (pg. 23)
  - b. Update on Meetings of Non-Executive Directors (pg. 24)
  - c. Update on Role of the Corporate Secretary (pg. 24)
- C. Remuneration Matters
  - a. Update of Aggregate Remuneration of Directors (pg. 27)
  - b. Update of Aggregate Remuneration of Management (pg. 27)
- D. Board Committees
  - a. Update of Board Committee Details-Corporate Governance Committee (pg. 28)
  - b. Update of Board Committee Attendance (pgs. 29-30)
  - c. Update of Work Done and Issues Addressed (pg. 31)
- E. Role of Stakeholders
  - a. Update of Details on Separate Sustainability Report (pg. 44)
- F. Disclosure and Transparency
  - a. Update of Ownership Structure (pg. 45)
  - b. Update of External Auditor's Fees (pg. 46)
  - c. Update of Release of Audited Financial Statements (pg. 47)
  - d. Update of Disclosure of RPTs (pg. 47)

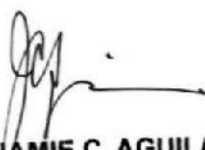
The foregoing is in accordance with the records of the Corporation in my custody.

MAR 29 2017 **IN WITNESS WHEREOF**, this Certificate has been signed this  
at MAKATI CITY.

  
**Atty. MARIANNE M. GUERRERO**  
Assistant Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this MAR 29 2017 at  
MAKATI CITY, affiant exhibited to me her SSS Identification No. 03-9638469-2.

Doc. No. 117;  
Page No. 24;  
Book No. VI;  
Series of 2017.

  
**ATTY. JAMIE C. AGUILAR**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2017  
PTR NO. 5912321 / 01.06.17 / MAKATI CITY  
IBP NO. 1060312 / 01.06.17 / QUEZON CITY  
TIN-185 546 487 ROLL NO. 39636