COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Mall of Asia Arena Annex Building Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

(Business Address: No. Street City/Town/Province)

Mr. Jeffrey C. Lim

(Contact Person)

831-1000

(Company Telephone Number)

1 2	3 1	17-A	0 4	1 5
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SRC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE

1. For the calendar year ended **DECEMBER 31, 2013**

2. SEC Identification Number **AS094-000088**

3. BIR Tax Identification No. **003-058-789**

4. Exact name of registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

5. **PHILIPPINES**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines** **1300**
   Address of principal office — Postal Code

8. **(632) 831-1000**
   Registrant's telephone number, including area code

9. **NA**
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 4 and 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
CAPITAL STOCK, P 1 PAR VALUE	**27,819,137,294**

11. Are any or all of these securities listed on the Philippine Stock Exchange.
    Yes [**X**] No [ ]

12. Check whether the registrant:
    (a) has filed all reports required to be filed by Section 17 of the Securities Regulations Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

    Yes [**X**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.
    Yes [**X**] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱107,873,579,908

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

Business Development and Principal Products or Services

SM Prime Holdings, Inc. ("SMPH" or "the Parent Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. SMPH and its subsidiaries (collectively known as "the Company" or "SM Prime") are incorporated to acquire by purchase, exchange, assignment, gift or otherwise, and to own, use, improve, subdivide, operate, enjoy, sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and hold for investment or otherwise, including but not limited to real estate and the right to receive, collect and dispose of, any and all rentals, dividends, interest and income derived therefrom; the right to vote on any proprietary or other interest on any shares of stock, and upon any bonds, debentures, or other securities; and the right to develop, conduct, operate and maintain modernized commercial shopping centers and all the businesses appurtenant thereto, such as but not limited to the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie or cinema theatres within the compound or premises of the shopping centers, to construct, erect, manage and administer buildings such as condominium, apartments, hotels, restaurants, stores or other structures for mixed use purposes. Its registered office and principal place of business of SMPH is Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

SMPH's common shares are publicly traded in the Philippine Stock Exchange (PSE). SM Investments Corporation (SMIC), the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

The subsidiaries of the Parent Company follow:

Company (By Business Unit)	Date and Place of Incorporation	Percentage of Ownership
A. MALLS		
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	74.19
Premier Central, Inc.	March 16, 1998, Philippines	100.00
Consolidated Prime Dev. Corp.	March 25, 1998, Philippines	100.00
Premier Southern Corp.	April 7, 1998, Philippines	100.00
San Lazaro Holdings Corporation	March 7, 2001, Philippines	100.00
First Leisure Ventures Group, Inc. (FLVGI)	March 28, 2007, Philippines	50.00
Southernpoint Properties Corp. (SPC)	June 10, 2008, Philippines	100.00
CHAS Realty and Development Corporation and Subsidiaries (CHAS)	October 17, 1997, Philippines	100.00
Mega Make Enterprises Limited and Subsidiaries	July 6, 2007, British Virgin Islands	100.00
Affluent Capital Enterprises Limited and Subsidiaries	March 20, 2006, British Virgin Islands	100.00
SM Land (China) Limited (SM Land China) and Subsidiaries	August 9, 2006, Hong Kong	100.00
Simply Prestige Limited and Subsidiaries	April 23, 2013, Philippines	100.00
Springfield Global Enterprises Limited (Springfield)	September 6, 2007, British Virgin Islands	100.00

B. <u>RESIDENTIAL</u>		
SM Development Corporation (SMDC) and Subsidiaries	July 12, 1974, Philippines	100.00
Summerhills Home Development Corporation (SHDC)	September 13, 2007, Philippines	100.00
Costa del Hamilo, Inc. and Subsidiary (Costa)	September 26, 2006, Philippines	100.00
Highlands Prime, Inc. (HPI)	February 15, 2001, Philippines	100.00
C. <u>COMMERCIAL</u>		
Magenta Legacy, Inc.	September 13, 2007, Philippines	100.00
Associated Development Corporation	November 19, 1989, Philippines	100.00
SM Arena Complex Corporation (SMACC)	March 15, 2012, Philippines	100.00
Tagaytay Resorts and Development Corporation (TRDC)	August 29, 1988, Philippines	100.00
D. <u>HOTELS AND COVENTION CENTERS</u>		
SM Hotels and Conventions Corporation (SMHCC) and Subsidiaries	April 2, 2008, Philippines	100.00

In 2013, the Sy family initiated a corporate restructuring exercise to consolidate all of the SM Group's real estate subsidiaries and real estate assets under SMPH. The Reorganization was approved by the Board of Directors of SM Prime on May 31, 2013 and subsequently ratified by the stockholders on July 10, 2013.

The Reorganization was achieved through the following transactions:

SM Land, Inc.'s tender offers for SMDC and HPI

On June 4, 2013, SM Land, Inc. (SM Land) launched a tender offer to the existing shareholders of SMDC and HPI, which were at the time listed on the PSE, in exchange for SMPH shares held by SM Land. The terms of the tender offer were executed at an exchange ratio of 0.472 SMPH share for 1 SMDC share and 0.135 SMPH share for 1 HPI share. The tender offers were completed on August 12, 2013.

Merger of SMPH and SM Land

Following the completion of the tender offers, on October 10, 2013, the SEC approved the merger of SMPH and SM Land via a share-for-share swap where the stockholders of SM Land received new SMPH shares in exchange for their shareholdings in SM Land. As a result of the merger, SMDC and HPI became subsidiaries of SMPH effective October 10, 2013. In addition to the shareholdings in SMDC and HPI, SMPH now holds SM Land's real estate assets. The merger ratio was 738 SMPH shares for 1 SM Land share. The total number of new SMPH common shares issued to SM Land shareholders were 14,390,923,857. On November 5, 2013, SMDC and HPI were delisted from the PSE.

Acquisition of Unlisted Real Estate Companies and Assets from SMIC and the Sy Family

On October 10, 2013, the Philippine SEC also approved SMPH's acquisition of SMIC's unlisted real estate companies, including SM Hotels and Conventions Corp., SM Arena Complex Corporation, Costa del Hamilo, Inc., Prime Metro Estate, Inc. and Tagaytay Resort and Development Corporation (collectively, the "Unlisted Real Estate Companies"). The Philippine SEC also approved SMPH's acquisition of certain real property assets of SMIC (the "SMIC Real Estate Assets") by issuing new SMPH shares to SMIC. The total acquisition price of the Unlisted Real Estate Companies and SMIC

Real Estate Assets amounted to ₱25.8 billion, equivalent to 1,382,841,458 SMPH common shares issued based on the 30-day volume weighted average price of SMPH's shares of ₱18.66.

The Company has now four business units (or segments), namely, malls, residential, commercial and hotel and convention centers. The contribution of each of the business units to the revenues and net income of the Company in the year ended 2013 are as follows:

(in thousand)	**Mall**	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
Revenue	₱34,452,310	₱20,916,150	₱3,428,535	₱1,814,710	(₱817,295)	₱59,794,410
Net income (loss)	11,454,753	4,241,803	1,853,364	(72,454)	(1,202,646)	16,274,820

Further details relating to business segment data can be seen in Note 5 of the attached consolidated financial statements.

As of December 31, 2013, the Company had a market capitalization of ₱408.36 billion.

For the year 2014, the Company expects to incur capital expenditures of approximately ₱71 billion. This will be funded with internally generated funds and external borrowings.

The Company is not under bankruptcy, receivership or any similar proceedings.

Risks

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

The Company's Internal Audit Department follows a framework for systematically understanding and identifying the types of business risks threatening the organization as a whole and specific business processes within the organization. A review and evaluation of internal controls to manage the identified risks are done on a regular basis and test of controls is conducted to determine if the said controls are in place. The Internal Audit Department also reports to the Audit and Risk Management Committee (ARMC) quarterly. The ARMC is composed of six (6) members, three (3) of whom are independent directors. The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews SM Prime's internal control systems, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.

The Company also has an Enterprise Risk Management Committee (ERMC) which is an oversight committee created to act as the monitoring body for the individual risk management activities of the Company. The ERMC has the responsibility of developing a formal framework to assist the Company in managing its risks and is mandated to report regularly to the ARMC on any risk concerns. The objectives of the group will be to: (1) reduce prevailing risks within SM prime; (2) discuss, agree and recommend as appropriate, on matters relating to corporate risk policy and strategy; (3) make reports and recommendations to the Board of Directors; (4) discuss operational risks particularly those that affect various divisions; (5) oversee the implementation of the risk management strategy; (6) promote growth risk management practices with the aim of reducing potential liabilities; (7) consider and identify ideas for risk reduction; and (8) provide a forum to discuss risk management issues.

Management is committed in ensuring that business processes are clearly defined, aligned with business strategies, perform effectively and efficiently in satisfying customer needs and protect financial, physical and intellectual assets from unacceptable losses, risk taking, misappropriation or misuse.

Competition

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

Suppliers

The Company has a broad range of suppliers, both local and foreign.

Customers/Clients

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

Trademarks

The Company relies on trademarks to establish and protect the SM name, logo and other SM in-house brands. All registered trademarks have a term of 10 years with expiration dates ranging from 2015 to 2021. Upon expiration, the trademarks are subject for renewal for another term upon proper application. The Company believes that the trademarks and its intellectual property rights are important to its success and competitive position and registers all its brands to protect its intellectual property rights and actively monitors the validity of these registrations.

Transactions With and/or Dependence on Related Parties

As of February 28, 2014, the Company is 51.04% and 26.13% directly-owned by SMIC and the Sy Family, respectively.

All transactions with related companies are done on commercial terms and at arms-length basis (see Note 22 of attached Consolidated Financial Statements).

Governmental regulations and environmental laws

The Company has always been committed towards sustainable and responsible business practices in all stages of their operations, and even before periods of construction and development.

The Company constructs, develops and renovates real estate properties that inherently minimize impact and preserve natural resources. Simultaneously with the daily operations, the Company meticulously measures and manages resources consumption patterns in consideration of the communities where the Company operates. These core operational sustainability efforts center on energy efficiency, water resource management, air quality and solid waste management. Furthermore, SM Prime hosts a portfolio of activities and programs to spread awareness on various socio-environmental concerns and celebrate numerous cultural celebrations around the country and throughout the year. In line with these efforts, the Company operates beyond the levels of regulatory compliance, ensures that it meets all governmental, environmental, health and safety requirements and aligns shared value initiative and efficiency efforts with international standards. The Company also guarantees that all required government approvals are obtained and keeps updated on any developments in regulations concerning the real estate industry.

The Company incurs costs that are standard in compliance with environmental laws.

Employees

As of December 31, 2013, the Company had 1,598 regular employees and the Parent Company had 291 direct employees. Headcount approximately increases by an average rate of 8% annually. The employees are not subject to a collective bargaining agreement (CBA).

SM Prime's mall business unit is supported by 6,364 officers and employees of the management companies. Management Companies manage and operate the malls. Including the provision of manpower, maintenance and engineering and security and promotional activities.

ITEM 2. Properties

A. MALLS

SM Prime operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The mall business unit currently has forty eight malls in the Philippines with 6.2 million square meters (sq. m.) of gross floor area (GFA) and five shopping malls in China with 0.8 million sq. m. of GFA.

In 2013, SM Prime opened two malls in the Philippines, namely, SM Aura Premier in Taguig City and SM City BF Parañaque in Parañaque City. The new malls added 355,000 sq. m. to SM Prime's total GFA.

Metro Manila Malls

SM City North EDSA

Year opened – 1985. SM City North EDSA has a gross floor area (GFA) of 482,958 square meters (sq. m.) featuring 12 cinemas including a 3D IMAX theater with a total seating capacity of 9,346, 24-computerized synthetic lane bowling center, food court, amusement centers and multi-level carpark which provides a total capacity of 3,846 vehicles, located on a 16.1 hectare site in Diliman, Quezon City. Following the opening of The Block and renovation of The Annex, The Sky Garden was unveiled in May 2009. It is a 400-meter elevated walkway shaded by a long sketch of white canopy connecting building to another, with a park-like ambiance and green architecture. The Sky Garden includes the roof garden, water features, food and retail outlets and sky dome, a 1,000-seat amphitheater for shows and special events. The anchor tenants for SM City North EDSA are The SM Store, SM Hypermarket and SM Supermarket, Forever 21 and Uniqlo.

SM Mall of Asia

Year opened – 2006. SM Mall of Asia is located on a 19.5 hectare property overlooking Manila Bay. The mall consists of four buildings linked by elevated walkways—Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The mall has a GFA of 406,961 sq. m. with parking buildings that has 3,984 spaces each that are available for vehicles. The Entertainment Building houses the country's first IMAX theatre, a special Director's Club screening room for exclusive film showings, eight state-of-the art cinemas, 32-lane bowling facility, an olympic-sized ice skating rink, a Science Discovery Center and Planetarium and fine dining restaurants and bars. The anchor tenants for SM Mall of Asia are The SM Store, SM Hypermarket, Forever 21 and Uniqlo.

SM Megamall

Year opened – 1991. SM Megamall is currently the country's largest shopping mall in the Philippines located on a 10.5 hectare property in the Ortigas business district of Metro Manila. It stands along the main EDSA thoroughfare and is near the Metro Rail Transit. SM Megamall has two main buildings, Mega A and Mega B, with the addition of Mega Atrium in 2008, Building C in 2011 and Mega Fashion Hall in January 2014. It has a total GFA of 506,435 sq. m. It features 14 cinemas including the newly opened IMAX theatre and Director's Club with its own butler service, a fully-computerized 14-lane bowling center, an olympic-sized ice skating rink, a mega fashion hall, event center and parking for more than 3,000 vehicles. The anchor tenants for SM Megamall are The SM Store, SM Supermarket, Forever 21 and Toy Kingdom.

SM Aura Premier
Year opened – 2013. SM Aura Premier, opened in May 2013, is a state of the art civic center at the heart of Taguig City. The mall has a GFA of 234,892 sq. m. As an integrated development, SM Aura Premier incorporates office towers, a chapel, a convention center and mini-coliseum, supported by a retail podium with an upscale look and feel. The mall also has two regular cinemas, two Director's Clubs and an IMAX Theater. The anchor tenants for SM Aura Premier are The SM Store, SM Supermarket, Forever 21 and Uniqlo.

SM Southmall
Year opened – 1995. SM Southmall, with a GFA of 205,687 sq. m., was the first shopping mall in the southern region of Metro Manila located Alabang-Zapote Road in Las Piñas City. As major renovations completed in 2012, SM Southmall became one the premier malls and it features nine cinemas with a seating capacity of 7,060, including an IMAX theater, an ice skating rink, bowling center, food court and a carpark with 3,068 slots. The anchor tenants for SM Southmall are The SM Store, SM Supermarket and Ace Hardware.

SM City BF Parañaque
Year opened – 2013. SM City BF Parañaque, strategically located at the main gate of Parañaque's prime residential village, opened on November 29, 2013 which has a GFA of 120,200 sq. m. Its design and construction features three skylight domes in its main atrium to reduce the use of electricity by fully maximizing the use of sunlight, while air conditioning is automatically regulated to help ensure efficient energy consumption. The mall is the first mall to have four Director's Club cinemas equipped with electronic recliner (lazyboy type) seats that can accommodate up to 200 moviegoers and also houses two premier cinemas with 180 seats each. It provides ample parking space for 1,420 vehicles and 179 slot for motorcycles. The anchor tenants for SM City BF Parañaque are The SM Store, SM Supermarket, Our Home and Uniqlo.

SM City Fairview
Year opened – 1997. SM City Fairview is a two-building, four-level complex with a GFA of 188,681 sq. m. located on a 20.2 hectare site in Quezon City, Metro Manila. The mall features 12 cinemas with a seating capacity of 6,533, 20-lane bowling center, food court and amusement areas. In early 2009, the mall launched its annex, adding 28,600 sq. m. of GFA to the main mall. The anchor tenants for SM City Fairview are The SM Store, SM Hypermarket, SM Supermarket, Ace Builders Center and Toy Kingdom.

SM City San Lazaro
Year opened – 2005. SM City San Lazaro is located at the center of a densely populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-story mall has a GFA of 181,593 sq. m. The mall features a food court, amusement center, six cinemas with a seating capacity of 3,274, and parking for 1,256 vehicles. The anchor tenants for SM City San Lazaro are The SM Store, SM Supermarket and SM Appliance Center.

SM City Marikina
Year opened – 2008. SM City Marikina on Marcos Highway, Brgy. Calumpang, Marikina City has a GFA of 178,485 sq. m. Marikina is a key city for the SM Group, as its shoemakers became vital partners during its growth years in the sixties as a shoe store in Carriedo, Manila. It features a food court and eight cinemas with a 3,136 seating capacity. The anchor tenants for SM City Marikina are The SM Store, SM Supermarket and Ace Hardware.

SM City Manila

Year opened – 2000. SM City Manila is a five-level mall with a GFA of 167,812 sq. m. The mall is located in downtown Manila next to Manila City Hall. The mall has 12 cinemas with a seating capacity of 7,554, a food court and a carpark available for 920 vehicles. It has become a major destination for shoppers, given its strategic location and easy accessibility by the Light Railway Transit and other public transportation. The anchor tenants for SM City Manila are The SM Store, SM Supermarket and SM Appliance Center.

SM City Sta. Mesa

Year opened – 1990. SM City Sta. Mesa, located in Quezon City, Metro Manila, is a seven level complex with a GFA of 133,563 sq. m. featuring 10 cinemas with a seating capacity of 7,451, a food court, an amusement center, carpark with a total capacity of 1,052 vehicles. The anchor tenants for SM City Sta. Mesa are The SM Store, SM Supermarket and SM Appliance Center.

SM City Bicutan

Year opened – 2002. SM City Bicutan is a two-building mall located along Doña Soledad Ave. corner West Service Road, Bicutan, Parañaque City. This mall has a GFA of 113,667 sq. m. It features a food court and four cinemas with a total seating capacity of 1,368. SM City Bicutan serves nearly half a million residents within a 3 kilometer radius. The anchor tenants for SM City Bicutan are The SM Store, SM Supermarket and Ace Hardware.

SM City Sucat

Year opened – 2001. SM City Sucat is a two-building mall located on a 10.1 hectare site along Dr. A. Santos Ave. (Sucat Road), Brgy. San Dionisio, Parañaque City. The mall has a GFA of 96,560 sq. m. featuring four cinemas with total seating capacity of 1,955, a food court and carpark with 1,475 slots. The anchor tenants for SM City Sucat are The SM Store, SM Supermarket and Ace Hardware.

SM Center Valenzuela

Year opened – 2005. SM Center Valenzuela has a total GFA of 70,681 sq. m., situated in Brgy. Karuhatan, Valenzuela City. The mall caters to the bustling industrial areas that surround the property. The mall features four cinemas with a 2,168 seating capacity, a food court and parking for 557 vehicles. It also features the Fashion Avenue, a multi-shop style center that houses a wide array of apparel, shoes and accessory picks. The anchor tenants for SM Center Valenzuela are SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Novaliches

Year opened – 2010. SM City Novaliches, having a GFA of 60,560 sq. m., is located along Quirino Highway in Brgy. San Bartolome, Novaliches, Quezon City. Novaliches, being the largest district in the city, is growing with residential subdivisions and industrial companies. The amenities of the mall include a food court, four cinemas with 1,610 seats and parking for almost 1,206 vehicles. The anchor tenants for SM City Novaliches are The SM Store, SM Supermarket and Ace Hardware.

SM Center Muntinlupa

Year opened – 2007. SM Center Muntinlupa is situated in Brgy. Putatan, Muntinlupa City. The two-level mall has a GFA of 54,292 sq. m. that caters the residents of Muntinlupa City and the growing municipality of San Pedro, Laguna. The mall features a food court, four cinemas with 1,582 seating capacity and an entertainment plaza for shows and events located at the center of the mall. The anchor tenants for SM Center Muntinlupa are SM Hypermarket, SM Appliance Center and Ace Hardware.

SM Center Las Piñas

Year opened – 2009. SM Center Las Piñas is located along the Alabang-Zapote Road in Brgy. Talon, Pamplona, Las Piñas City that has a GFA of 39,788 sq. m. SM Center Las Piñas serves customers in the western section of the city and the nearby provinces of Laguna and Cavite. The anchor tenants for SM Center Las Piñas are SM Hypermarket, Banco de Oro and Ace Hardware.

SM Center Pasig
Year opened – 2006. SM Center Pasig is located in Frontera Verde, Pasig City serving residents of the neighboring upscale subdivisions and customers who regularly pass through the C5 route. Its GFA is 29,602 sq. m. including its basement parking for almost 300 vehicles. The anchor tenants for SM Center Pasig are SM Hypermarket, Ace Hardware and Watsons.

Malls Outside of Metro Manila

SM City Cebu
Year opened – 1993. SM City Cebu is a multi-level complex with a GFA of 273,804 sq. m. featuring eight cinemas, including a 3D IMAX theater with a total seating capacity of 7,266, a food court, a fully computerized 28-lane bowling center, a trade hall and a carpark with a 1,874 vehicle capacity located on a 13.8 hectare site in Cebu Port Center, Barrio Mabolo, Cebu City. The anchor tenants for SM City Cebu are The SM Store, SM Supermarket, Ace Hardware and Forever 21.

SM City Dasmariñas
Year opened – 2004. SM City Dasmariñas sits on a 12.4 hectare property situated along Governor's Drive, approximately 100 meters from the Aguinaldo Highway junction in Dasmariñas, Cavite. The mall has a GFA of 206,231 sq. m. The mall features a food court and six cinemas with a seating capacity of 2,710 people. In late 2011, the mall launched its annex, adding 36,486 sq. m. of GFA to the main mall. The anchor tenants for SM City Dasmariñas are The SM Store, SM Supermarket, SM Appliance Center and Uniqlo.

SM Lanang Premier
Year opened – 2012. SM Lanang Premier is a four-level mall with a GFA of 144,002 sq. m. The mall is located at J.P. Laurel Avenue, Brgy. Lanang, Davao City. It is the largest and first premier mall development project in Mindanao. It houses the SMX Davao Convention Center. SM Lanang Premier's amenities include six cinemas and an IMAX theater, with a combined seating capacity of 2,695, a bowling center, a Science Discovery Center, and parking for 1,660 vehicles. It also features a Skygarden with water fountains, art installations, and landscaping. The anchor tenants for SM Lanang Premier are The SM Store, SM Supermarket and Forever 21.

SM City Clark
Year opened – 2006. The two-storey SM City Clark is located along M.A. Roxas Avenue and is approximately 80 kilometers north of Manila and 60-kilometers east of Subic Bay Freeport, within close proximity of the Clark Special Economic Zone in Pampanga. The mall has a GFA of 142,585 sq. m. which features seven cinemas with a seating capacity of 3,260. With its unique design resembling a coliseum, this mall offers tourists and shoppers a variety of retail, dining, and entertainment establishments. The anchor tenants for SM City Clark are The SM Store, SM Hypermarket, Ace Hardware and Uniqlo.

SM City Pampanga
Year opened – 2000. SM City Pampanga is a 132,484 sq. m. shopping mall with three annexes, straddling the municipalities of San Fernando and Mexico in Pampanga. It features six state-of-the-art cinemas, a food court and amusement centers. The mall is strategically located at the Olongapo Gapan Road to serves the city's residents as well as those in the provinces of Bulacan, Tarlac, Bataan, Zambales and Nueva Ecija. The anchor tenants for SM City Pampanga are The SM Store, SM Supermarket, Ace Hardware, SM Appliance Center and Uniqlo.

SM City Davao
Year opened – 2001. SM City Davao is located on a 13.2 hectare property along Quimpo Boulevard corner Tulip and Eco Drives, Brgy. Matina, Davao City. Its location is walking distance from some of the largest schools in Mindanao such as Ateneo de Davao, University of Mindanao, Philippine Women's College and the Agro-Industrial Foundation College. The mall has a GFA of 128,145 sq. m.

It has six cinemas which can accommodate 2,374 movie patrons. The anchor tenants for SM City Davao are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City General Santos
Year opened – 2012. SM City General Santos is a three level mall located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. The mall has a GFA of 125,245 sq. m. featuring a food court, four cinemas with a combined seating capacity of 1,690, and parking for more than 1,400 vehicles. The anchor tenants for SM City General Santos are The SM Store, SM Supermarket and Ace Hardware.

SM City Bacoor
Year opened – 1997. SM City Bacoor is a five level complex with a GFA of 120,202 sq. m. located in General Emilio Aguinaldo Highway corner Tirona Highway, Brgy. Habay, Bacoor City, Cavite. The shopping complex features eight cinemas with a 4,381 seating capacity, and food court and amusement areas. It is the very first SM mall in the entire Luzon region (outside Metro Manila) and the very first in the Cavite province. The anchor tenants of SM City Bacoor are The SM Store, SM Supermarket and Our Home.

SM City Baguio
Year opened – 2003. SM City Baguio is situated along Session Road in Baguio City. Baguio City is a promising site for SM Prime to develop its presence in the northern part of Luzon. Known for its cool climate, beautiful scenery and historic culture, the city offers multifold opportunities for entrepreneurs, retailers and service oriented establishments. SM City Baguio has a GFA of 107,950 sq. m. It has four cinemas with a total seating capacity of 1,932. The anchor tenants for SM City Baguio are The SM Store, SM Supermarket and Ace Hardware.

SM City Iloilo
Year opened – 1999. SM City Iloilo is a 105,954 sq. m. mall constructed on a 17.5 hectare property at the juncture of the Northwest and the Northeast of the Iloilo-Jaro West Diversion Road in Manduriao, Iloilo City. Its location is a quick drive from the airport and from the center of the city. It serves the city’s residents, as well as those of the rest of Panay Island and the neighboring islands in the Visayas. SM City Iloilo has eight cinemas with a seating capacity of 4,995. The anchor tenants for SM City Iloilo are The SM Store, SM Supermarket and SM Appliance Center.

SM City Consolacion
Year opened – 2012. SM City Consolacion is located along the Cebu North Road, Barangay Lamac, Consolacion, Cebu. It has a GFA of 103,489 sq. m. The mall’s amenities include a food court that seats up to 668 diners, four cinemas with a combined seating capacity of 1,475, and parking for over 700 vehicles. The anchor tenants for SM City Consolacion are The SM Store and SM Supermarket.

SM City Tarlac
Year opened – 2010. SM City Tarlac is located along MacArthur Highway, San Roque, Tarlac City. It is the very first SM mall in the province of Tarlac. The four-level mall has a GFA of 101,629 sq. m. The mall features a food court, four cinemas with 1,882 seating capacity, and parking for over 1,100 vehicles. The anchor tenants for SM City Tarlac are The SM Store, SM Supermarket and Ace Hardware.

SM City Taytay
Year opened – 2007. SM City Taytay is a two-building mall located in Brgy. Dolores, Taytay, Rizal. The mall has a GFA of 98,928 sq. m. that features a food court, three cinemas with 1,209 seating capacity and a carpark for 985 vehicles. SM City Taytay is situated as a stopover for travelers, especially those coming from Laguna via the Marikina Infanta Road. The anchor tenants for SM City Taytay are The SM Store, SM Hypermarket and Ace Hardware.

SM City Marilao
Year opened – 2003. SM City Marilao is the first SM mall in the Bulacan province with a land area of 20.3 hectare and GFA of 93,910 sq. m. It is located at MacArthur Highway, Brgy. Ibayo, Marilao, Bulacan. The four-level mall features a food court, event center and four cinemas with seating capacity of 1,200. The anchor tenants for SM City Marilao are The SM Store, SM Supermarket and Ace Hardware.

SM City Masinag
Year opened – 2011. SM City Masinag is a three-floor mall located along Brgy. Mayamot, Marcos Highway, Antipolo City. It has a GFA of 90,261 sq. m. SM City Masinag's amenities include a food court, four cinemas with a combined seating capacity of 1,148, and parking for more than 450 vehicles. The anchor tenants for SM City Masinag are The SM Store, SM Supermarket and Ace Hardware.

SM City Cagayan De Oro
Year opened – 2002. SM City Cagayan De Oro sits along Mastersons Avenue corner Gran Via St., Cagayan de Oro City, Misamis Oriental. The mall has a GFA of 87,837 sq. m. It features four cinemas with a total seating capacity of 1,590. The anchor tenants for SM City Cagayan De Oro are The SM Store, SM Supermarket and Ace Hardware.

SM City Sta. Rosa
Year opened – 2006. SM City Sta. Rosa is the first SM mall in the Laguna province with 86,463 sq. m. of GFA. Located on a 17.1 hectare site in Barrio Tagapo, Sta. Rosa, the two-level mall is a 10-minute drive from the Mamplasan exit. SM City Sta. Rosa includes a variety of retail establishments, four cinemas and a food court. The anchor tenants for SM City Sta. Rosa are The SM Store, SM Supermarket and Ace Hardware.

SM City Batangas
Year opened – 2004. SM City Batangas is situated along the National Highway, Brgy. Pallocan West, Batangas City. The mall is approximately 3.7 kilometers from the Batangas International Port. SM City Batangas has a GFA of 80,350 sq. m. It has four cinemas with a seating capacity of 1,818. The anchor tenants for SM City Batangas are The SM Store, SM Supermarket and Ace Hardware.

SM City Lucena
Year opened – 2003. SM City Lucena is located along Maharlika Highway corner Dalahican Road, Brgy. Ibabang Dupay, Lucena City, Quezon. It is the first SM mall in the province of Quezon. This four-level mall has a GFA of 78,685 sq. m. It features four cinemas with a total seating capacity of 2,276. The anchor tenants for SM City Lucena are The SM Store, SM Supermarket and Ace Hardware.

SM City Lipa
Year opened – 2006. SM City Lipa is a two-level mall strategically located along Lipa's Ayala Highway. It occupies 10.3 hectares of land, with 77,261 sq. m. of GFA. Lipa City features natural attractions and is a commercial, educational and industrial destination. The mall features a food court and four cinemas with 2,482 seating capacity. The anchor tenants for SM City Lipa are The SM Store, SM Supermarket and Ace Hardware.

SM City Naga
Year opened – 2009. SM City Naga is located in Central Business District II of Brgy. Triangulo, Naga City. It is the first SM mall in the Bicol region and has a GFA of 75,652 sq. m. The mall offers a food court and four cinemas with a combined seating capacity of 1,346. The anchor tenants for SM City Naga are The SM Store, SM Supermarket and Ace Hardware.

SM City Bacolod
Year opened – 2007. SM City Bacolod is a two-building mall located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It has a total land area of 16.1 hectare and has a GFA of 71,752 sq. m. The mall features a food court, amusement centers and four cinemas with 2,001 seating

capacity. The anchor tenants for SM City Bacolod are The SM Store, SM Supermarket and Ace Hardware.

SM City Calamba
Year opened – 2010. SM City Calamba is located at National Road, Brgy. Real, Calamba City, approximately 70 meters from the intersection of Maharlika Highway and Manila South Road. The mall has a GFA of 67,384 sq. m. and features a food court and four cinemas with a combined seating capacity of 1,268. The anchor tenants for SM City Calamba are The SM Store, SM Supermarket and Ace Hardware.

SM City Rosales
Year opened – 2008. SM City Rosales in Brgy. Carmen, Pangasinan stands on a 12.2 hectare lot and has a GFA of 63,330 sq. m. It is the first SM mall in the province of Pangasinan. The amenities of the mall include a food court and four cinemas with capacity of 1,704 seats. The mall contains a public transport terminal and also serves as a bus stop of various inter provincial bus lines. The anchor tenants for SM City Rosales are The SM Store, SM Hypermarket and Ace Hardware.

SM City Baliwag
Year opened – 2008. SM City Baliwag is located in Brgy. Pagala, Baliwag, Bulacan, approximately 40 kilometers from the EDSA—Balintawak interchange of the North Luzon Expressway. It has a GFA of 61,262 sq. m. Among the facilities included are four cinemas with a combined seating capacity of 1,241, a food court and parking for 531 vehicles. The anchor tenants for SM City Baliwag are The SM Store, SM Hypermarket and Ace Hardware.

SM City Rosario
Year opened – 2009. SM City Rosario is located in Brgy. Tejero in Rosario. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of Cavite and neighboring provinces as well. It has a GFA of 59,326 sq. m. and features a food court and four cinemas with a capacity of 1,552 seats. The anchor tenants for SM Rosario are The SM Store, SM Supermarket and Ace Hardware.

SM City San Pablo
Year opened – 2010. SM City San Pablo has a GFA of 59,609 sq. m. It is located along Maharlika Highway in Brgy. San Rafael, San Pablo City in the province of Laguna. The mall features a business center, a food court and four cinemas with seating capacity of 1,560. It also has an atrium for various events. The anchor tenants for SM City San Pablo are The SM Store, SM Supermarket and Ace Hardware.

SM Center Molino
Year opened – 2005. SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a GFA of 52,061 sq. m. SM Center Molino is the first to have the Service Lane, which comprises of different shops that offer a wide array of services situated outside the mall across the covered parking. The mall features four cinemas with 1,433 seating capacity and parking for 800 vehicles. The mall's anchor tenants are the SM Hypermarket, SM Appliance Center and Ace Hardware.

SM City Olongapo
Year opened – 2012. SM City Olongapo, the very first mall in the province of Zambales, has a GFA of 47,426 sq. m. that is strategically located in Magsaysay Drive Corner Gordon Avenue in the city's Central Business District. The mall serves customers in Zambales, Bataan, and other nearby provinces. SM City Olongapo's major amenities consist of an al fresco dining area, which offers a view of Olongapo's mountain landscape, three state-of-the-art digital cinemas, with a combined seating capacity of 758, and parking for over 300 vehicles. The anchor tenants for SM City Olongapo are The SM Store, SM Supermarket and SM Appliance Center.

SM City San Fernando
Year opened – 2012. SM City San Fernando is a seven story mall located at the Downtown Heritage District, Barangay Sto. Rosario, San Fernando, Pampanga. It has a GFA of 42,625 sq. m. and features a unique facade, a distinctive exterior design which complies with the architectural theme of a heritage area. The mall's amenities include three cinemas with a combined seating capacity of 1,068 and parking slots for over 300 vehicles. The anchor tenants for SM City San Fernando are The SM Store, SM Supermarket and SM Appliance Center.

China Malls

SM City Xiamen
Year opened – 2001 (SM City Xiamen) & 2009 (SM Xiamen Lifestyle). SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4 hectare lot and has a GFA of 238,125 sq. m. plus an open carpark for 2,188 vehicle. The anchor tenants for SM City Xiamen are Wal-Mart, The SM Store, Watsons, H&M and Uniqlo plus several junior anchors.

SM City Jinjiang
Year opened – 2005. SM City Jinjiang in Jinjiang City, Fujian Province is situated on an 11.5 hectare lot and has a GFA of 167,830 sq. m. plus an open carpark for 1,700 vehicles. The anchor tenants for SM City Jinjiang are Wal-Mart, The SM Store and Watsons plus several junior anchors.

SM City Chengdu
Year opened – 2006. SM City Chengdu in Chengdu City, Sichuan Province is situated on a 4.7 hectare lot and has a GFA of 166,665 sq. m. plus an open carpark for 810 vehicles. The anchor tenants for SM City Chengdu are Wal-Mart, The SM Store and Wanda Cinema plus several junior anchors.

SM City Suzhou
Year opened – 2011. SM City Suzhou in Wuzhong District, Jiangsu Province is situated on a 4.1 hectare lot and has a GFA of 72,552 sq. m. plus a carpark for 400 vehicles. The anchor tenants for SM City Suzhou are Vanguard Hypermarket, The SM Store, and Wanda Cinema plus several junior anchors.

SM City Chongqing
Year opened – 2012. SM City Chongqing, located in the Yubei District, Southwest China, has a GFA of 149,429 sq. m. SM City Chongqing is a one building structure with five levels. The anchor tenants are Vanguard Supermarket, The SM Store and Wanda Cinema plus several junior anchors.

The following table sets forth certain information regarding the contribution of the SM malls in China to the Company's total consolidated revenues and consolidated net income for the year stated:

	For the year ended December 31,					
	2011 *(restated)*		**2012** *(restated)*		**2013**	
	(audited) (in millions of pesos, except percentage of SM Prime's total)					
Revenue	2,140	4%	2,636	5%	3,121	5%
Net income	738	5%	904	6%	958	6%

The Company believes that the five malls will provide a platform for it to expand in the China market. It intends to continue to develop the SM malls in China through synergies with its existing mall operations and other management expertise. The Company intends to continue seeking opportunities for mall developments in second and third tier cities in China, where the mall can serve to anchor the city center. Although SM Prime is still developing its expansion plans in China, subject to the availability of suitable locations, SM Prime may initially build one new mall each year over the next five years in China.

There are no mortgage, lien or encumbrance over any of the Company's properties or limitations on ownership or usage over the same, except with respect to Note 16 of the attached consolidated financial statements.

Malls under Construction

For 2014, the Company's mall business unit will open three new malls, located in Cauayan and Angono in the Philippines and Zibo in China, as well as expansion of four existing malls. By yearend, the mall business unit will have an estimated 7.5 million square meters of gross floor area.

Land bank

The following table sets forth SMPH's existing land bank owned or available on long-term lease for development of new malls as of December 31, 2013:

Location	Acquisition	Gross Area (sq.m.)
Owned		
Cebu SRP	June 2012	304,100
Pangasinan (Urdaneta)	May 30, 2012	175,035
Pangasinan (Dagupan)	April 2005	149,320
Cabanatuan (Concepcion)	June 2011	110,242
Roxas City (Baybay)	July 2012	102,309
Bulacan (San Jose del Monte)	December 2012	60,193
Palawan (Puerto Princesa)	December 2011	69,855
Cavite (Trece Martires)	October 2011	49,498
Agusan del Norte (Butuan)	December 2011	37,233
Laguna (Sta. Rosa)	June 2012	42,174
Quezon City / Caloocan	April 2010	30,073
Cagayan de Oro	April 2012	28,935
Leyte (Tacloban City)	August 2012	26,016
Davao del Norte (Tagum City)	March 2013	24,633
Zamboanga City (Calenar)	June 2013	21,567
Tuguegarao City	October 2010	16,181
Rizal (Angono)	April 2012	12,573
Caloocan (Sangandaan)	October 2011	10,563
		1,270,500
Leased		
Commonwealth	November 2008	19,199
Total		**1,289,699**

Leased properties intended for future development have lease terms ranging from 15 to 50 years. Some contracts provide for renewal options subject to mutual agreement of the parties. Rental payments are generally based on a certain percentage of the Company's gross rental income or a certain fixed amount. Management believes that the rental rates are viable for shopping center development.

The Company retains ownership of all the sites on which the SM Prime malls are built, with the exception of SM City Bacoor, SM City Manila, SM Center Valenzuela, SM Center Molino, SM Center Pasig, SM City Clark, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion, SM City General Santos, SM Aura Premier, SM City Xiamen, SM City Jinjiang, SM City Chengdu, SM City Suzhou, and SM City Chongqing which are held under long term leases. In addition, the land where SM City Baguio is constructed is owned by SM Investments Corporation, and the land where SM City San Lazaro is constructed is owned by San Lazaro Holdings Corporation, a 100%-owned subsidiary. Rental rates are based on prevailing market rent for the said properties. Lease renewal options are subject to mutual agreement of the parties. SM Megamall is owned by FARDC, a 74% owned subsidiary and SM by the Bay is owned by FLVGI, a 50% owned subsidiary.

Joint Venture with WalterMart

In 07 January 2013, SM Prime entered into a joint venture with WalterMart, a leading operator of small scale community malls, a segment SM Prime has not previously catered to. The WalterMart arrangement is a 51%-49% joint venture in favor of SM Prime. The arrangement allows SM Prime to accelerate its expansion with the addition of WalterMart's 19 existing community malls. The WalterMart brand has been retained for the existing community malls that are located in Metro Manila, North Luzon and South Luzon. This joint venture provides an opportunity for SM Prime to access an additional business segment that is complimentary to its malls in the Philippines and China.

Other real properties that the Company intends to acquire, relating to its planned expansion of its mall business unit, are still under review depending on factors such as demographics and accessibility to public transport.

B. RESIDENTIAL PROPERTIES

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

SMDC was incorporated in the Philippines in 1974 under the name Ayala Fund, Inc., renamed SM Fund Inc., and in May 1996, SM Fund, Inc. was renamed SM Development Corporation to reflect its new business thrust of property development, whose primary objective is to pursue opportunities in the real estate industry. SMDC's subsidiaries are namely SM Synergy Properties Holdings, Corp., SM Residences Corp, Landfactors Incorporated, Vancouver Lands, Inc., Twenty Two Forty One Properties, Inc., Guadix Land Corporation, Lascona Land Company, Inc., Metro South Davao Properties Corporation, SMDC HK Limited, SMDC International (USA), Inc. and SMDC International (UK) Ltd. On the other hand, SHDC is primarily engaged in real estate development and sale of residential units.

As of December 31, 2013, residential business unit has twenty two residential projects in the market, twenty one of which are in Metro Manila and one in Tagaytay.

SM Prime, through its subsidiary HPI, owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas. In addition, SM Prime, through CDHI, is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas.

HPI develops and sells residential properties located at a private and exclusive mountainside resort called Tagaytay Highlands. CDHI's primary purpose is acquiring, developing and selling real estate and investment in various securities. CDHI is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline. Pico de Loro is located in a 40-hectare valley within Hamilo Coast situated near mountains and a protected cove.

As of December 31, 2013, the completed projects include the four-condominium cluster project, Jacana, Myna, Miranda and Carola, as well as club shares of Pico de Loro Beach and Country Club. The Pico Sands Hotel is also located on the Pico de Loro property. Pico de Loro is the first residential community at the Hamilo Coast property in Nasugbu, Batangas.

Completed Residential Projects

Chateau Elysee
Chateau Elysee is a six-cluster, six-story residential condominium project in a 4.7 hectare lot in Parañaque City, Metro Manila. This project offers one-bedroom and two-bedroom units. Cluster one, comprising 384 units, was launched in the third quarter of 2003 and completed in December 2004. Construction of cluster two with 384 units was completed in May 2006. Construction of cluster three with 400 units was completed in May 2007. Construction of cluster six with 504 units was completed in December 2008. Construction of cluster five, with 559 units was completed in November 2009. Construction of Cluster four with 588 units began in February 2010 and was completed in June 2011.

Mezza Residences
SMDC's first high-rise project is the Mezza Residences ("Mezza"), which is a mixed-use development project with 38-story four-tower condominiums and commercial retail area located across from SM City Sta. Mesa, Manila. Each tower has 400 to 800 residential units comprised of one-, two-, three and four-bedroom configurations, with floor areas ranging from 21 to 67 sq. m. Mezza consists of 2,332 saleable residential units, each priced between ₱1.7 million to just under ₱6.7 million, and 18 commercial units for lease with SaveMore store as the anchor tenant. Construction of Mezza towers one to four was 100% complete and SMDC had sold 95% of the units in Mezza.

Berkeley Residences
Berkeley Residences is a 35-story high-rise condominium project situated just across Miriam College in Quezon City. Berkeley Residences comprises 1,276 units which were completed in June 2011, of which 99% were already sold.

Sea Residences
Sea Residences is a 15-story residential and commercial condominium project comprising of six buildings with 2,898 residential units and 21 commercial units, located at the MOA Complex Pasay City. Phase One of Sea Residences comprises 1,159 units of which 99% were sold; construction for Phase One started in January 2009 and was completed in March 2012. Phase Two comprises 920 units of which 94% were sold; construction for Phase Two started in December 2009 and was completed in November 2012. Phase Three of Sea Residences comprises 820 units of which 97% were sold; construction for Phase Three started in March 2010 and was completed in December 2012.

Princeton Residences
Princeton Residences is a 38-story high-rise condominium project located along Aurora Blvd., Quezon City which was completed in March 2013. Princeton Residences comprises 1,096 units of which 75% were sold.

Ongoing Residential Projects

Grass Residences – Phase 1
Grass Residences – Phase 1 was launched in March 2008, a three tower 40-story high-rise condominium project located behind SM City North EDSA, Manila. Tower 1 of Grass Residences comprises 1,988 units, which were completed in October 2011 and of which 94% were sold. Tower 2 comprises 2,025 units, of which 97% were sold and is expected to be completed in the fourth quarter of 2014. Tower 3 comprises 1,990 units, of which 98% were sold; construction of Tower 3 of Grass Residences commenced in February 2010 and was completed in December 2013.

Grass Residences – Phase 2

Grass Residences – Phase 2 was launched in March 2013, a two tower 43-story high-rise condominium project located behind SM City North EDSA, Manila. Tower 4 comprises 1,957 units, of which 28% were sold; construction of Tower 4 is expected to commence in early 2014.

Field Residences

Field Residences is a residential condominium project that will ultimately consist of ten buildings located behind SM Sucat, Parañaque. Buildings 1, 2, 3, 7 and 8 of Field Residences comprises 1,974 units of which 88% were sold. Construction of buildings 1, 2, 8 and 3 were completed in April 2010, April 2011, December 2011 and December 2012, respectively. Building 7 was completed in September 2013.

Sun Residences

Sun Residences is a project comprising two 40-story towers located along España Blvd., Quezon City near Welcome Rotonda. Sun Residences Tower 1 comprises 2,057 units of which 89% were sold. Tower 2 comprises 1,982 units of which 73% were sold. Construction of Tower 1 was completed in November 2013; Tower 2 is expected to be completed by first quarter of 2014.

Jazz Residences

Jazz Residences is a mixed use development project comprising four 41-story towers located at N. Garcia corner Jupiter, Makati City. Towers A, B, C and D of the project with 5,367 units were 80% sold. Construction of Tower A started in April 2010 and was completed in December 2013 while construction of Tower C started in October 2010 and is expected to be completed in March 2014. Tower D is expected to be completed in September 2014. Construction of Tower B started in July 2011 and expected to be completed by October 2014.

Light Residences

Light Residences is a mixed use development project with three 40-story towers located along EDSA, Mandaluyong City. It has a total of 4,227 units which were 94% sold. Construction of Phase 1, which consists of the podium and Tower 1, started in March 2010 and was completed in December 2013. Construction of Phase 2 (Tower 3) started in March 2012 and was completed in December 2013. Construction of Phase 3 (Tower 2) commenced in March 2010 and is expected to be completed in the fourth quarter of 2014.

Wind Residences

Wind Residences is a residential condominium development with ten 20-story towers located along Emilio Aguinaldo Highway, Tagaytay City. Towers 1 to 4 have a total of 2,874 units which were 89% sold. Towers 1 and 2 were completed in August 2013. Tower 3 was completed in December 2013. Construction of Tower 4 began in April 2013 and is expected to be completed in 2015. Construction of Tower 5 started in October 2013.

M Place @ South Triangle

M Place @ South Triangle is a four 25-story tower condominium in South Triangle, Quezon City. Tower A started construction on January 2011 and was completed in December 2013. Tower A comprises 827 units of which 88% were sold. Tower B started construction in July 2011 and was completed in December 2013. Tower B comprises 912 units of which 73% were sold. Tower C comprises 778 units of which 77% were sold; construction of Tower C began in January 2012 and is expected to be completed in the fourth quarter of 2014. Tower D comprises of 920 units of which 48% were sold. Construction of Tower D commenced in December 2011 and is expected to be completed in the fourth quarter of 2014.

Blue Residences

Blue Residences is a 40-story residential condominium situated across from Ateneo De Manila University in Quezon City. Construction of Blue Residences started in October 2010. It comprises 1,591 units of which 80% were sold and is expected to be completed in the first quarter of 2014.

Mezza II Residences
Mezza II Residences is a 38-story residential condominium located just beside the first Mezza Residences in Quezon City. Construction of Mezza II started in December 2010. It comprises 1,324 units of which 59% were sold and is expected to be completed in September 2014.
Shine Residences
Shine Residences is a 22-story residential condominium located in Pasig City. Construction of Shine Residences commenced in January 2013 and is expected to be completed in 2015. It comprises 892 units of which 76% were sold.

Green Residences
Green Residences is a 50-story residential condominium situated on Taft Avenue, Manila near De La Salle University. Construction of Green Residences started in August 2011 and is expected to be completed in the third quarter of 2015. Green Residences comprises 3,378 units, of which 89% were sold.

Shell Residences
Shell Residences is a 16-story residential and commercial condominium project and is located at the MOA Complex in Pasay City. It comprises four buildings with 3,093 residential units, of which 95% were sold. Construction of Shell Residences commenced in May 2012 and is expected to be completed by the first quarter of 2015.

Breeze Residences
Breeze Residences is a 38-story residential and commercial condominium project and is located along Roxas Boulevard in Pasay City. Breeze Residences comprises 2,133 units, of which 74% were sold. Construction of Breeze Residences commenced in June 2013 and is expected to be completed by fourth quarter of 2015.

Grace Residences
Grace Residences is a residential condominium development with four towers located along Levi Mariano Avenue in Taguig City. Towers 1, 2 and 3 have a total of 2,452 units and were 58% sold. Construction of Tower 1 started in May 2013 and is expected to be completed in December 2014. Construction of Tower 2 will commence in October 2013 and is expected to be completed in June 2016.

Trees Residences
Trees Residences is a residential condominium development with nineteen 7-story towers located near Quezon City. Buildings 2,3,5,6 and 7 have a total of 1,769 units which were 19% sold. Construction of Buildings 5,6 and 7 will commence in first quarter of 2014. The project is expected to be completed by fourth quarter of 2018.

Shore Residences
Shore Residences is a residential condominium development with four towers located at the MOA Complex in Pasay City. Shore Residences comprises 5,709 units, of which 19% were sold. Construction of Shore Residences will commence on the second quarter of 2014 and is expected to be completed by first quarter of 2018.

Land Bank

For the year 2014, SM Prime’s residential business unit will be launching three new projects and four expansions of existing towers all in Metro Manila, except Wind in Tagaytay.

The Company continues to invest in properties that it believes are in prime locations across the Philippines for existing and future property development projects. It is important to the Company to have access to a steady supply of land for future projects.

Potential land acquisitions are evaluated against a number of criteria, including the attractiveness of the acquisition price relative to the market and the suitability or the technical feasibility of the planned development. The Company identifies land acquisitions through active search and referrals.

The table below sets forth the locations of SM Prime's residential undeveloped land inventory as of December 31, 2013:

Location	**Area (in sq. m.)**
Metro Manila:	
Quezon City	228,887
Makati City	100,311
Pasay City	94,046
Paranaque City	86,866
Taguig City	2,489
Cainta, Rizal	54,687
Las Piñas City	46,900
Mandaluyong	39,599
Valenzuela City	19,452
Manila City	19,211
Metro Manila Total	692,448
Outside Metro Manila:	
Batangas City	804,711
Davao City	62,300
Outside Metro Manila Total	867,011
Grand Total	**1,559,459**

The Company believes this land bank is sufficient to sustain the next several years of development and sales. Moreover, the Company's residential business unit continually seeks to increase its raw land inventory in various parts of the Philippines for future residential development through direct acquisitions.

Tagaytay Residential Developments

The Woodridge Place Phase I at Tagaytay Highlands
The construction of the seven condominiums of The Woodridge Place was completed, and all 71 units were turned over to unit owners in December 2010. HPI generated approximately ₱1.0 billion in revenue from the sale of the 71 units.

The Hillside at Tagaytay Highlands
Site development for lots began in the fourth quarter of 2007 and was completed in December 2009. Approximately 94% of the 156 lots were sold.

The Woodlands Point at Tagaytay Highlands
The Company has completed site development and construction of 24 log houses, 22 of which were already sold.

The Horizon at Tagaytay Midlands
This is a medium-density residential condominium development located inside The Tagaytay Midlands mountain resort community. The development overlooks the Tagaytay Midlands golf course, Taal lake and Volcano in the west, Mt. Makiling in the south east and the mountain range of Batangas in the south. This has 6 buildings with 108 units of approximately 137 to 150 sq. m. each. The project was launched in 2004 and was fully completed, 86% of which were already sold.

Pueblo Real at Tagaytay Midlands
The development is adjacent to The Horizon, situated on a six hectare property and has 86 lots with an average lot size of 400 sq. m. Approximately 69% of the lots were sold.

Woodridge Place Phase 2
This is a condominium project at Tagaytay Highlands that was introduced to the market in May 2010. This project consists of two mid-rise buildings with 177 condominium residential units with areas ranging from 85 to 212 sq. m. per unit. Approximately 52% and 16% of the units in the first and second tower, respectively, were sold.

Sierra Lago
This is a lot subdivision development located at Tagaytay Midlands that was launched in November 2010. This development has 185 lots with sizes of approximately 200 to 300 sq. m. Approximately 83% of the lots were sold.

Aspen Hills
Launched in the summer of 2012, this 27 hectare leisure lot development offers lot sizes from 320 to 800 sq. m. The surrounding village is expected to include the Meadows Community Clubhouse, the Little Ranch playground, the Sunshine Picnic Grove and Spinner's Trail. Approximately 21% of the lots were sold.

Land Bank in Tagaytay

SM Prime, through its subsidiary HPI, owns 555 hectares of land located around the vicinity of Tagaytay Highlands International Golf Club in Tagaytay City, Cavite and Tagaytay Midlands Golf Club in Batangas.

The table below sets forth the location and area of SM Prime's land bank in the vicinity of Tagaytay as of December 31, 2013:

Properties	**Area (in sq. m.)**
Tanauan City Property	383,006
Talisay Property – Site I	1,330,034
Talisay Property – Site II	1,158,924
Talisay Property – Site III	136,823
Talisay Property – Site IV	211,061
Talisay Property – Site V	6,510
Talisay Property – Site VI - VII	100,237
Talisay Property – Site VIII	18,241
Talisay Property – Site IX - X	132,707
Tagaytay Midlands	820,009
Brgy. Iruhin, Tagaytay City Site I	547,534
Brgy. Iruhin, Tagaytay City Site II	303,319
Tagaytay Midlands	10,178
Brgy. Iruhin	317,586
Tagaytay Midlands	78,821
Total	**5,554,990**

Costa del Hamilo's Projects

Jacana
Jacana is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It is comprised of two buildings, building A with six floors and building B with seven floors. Of the total 246 residential units, 93% were sold. Construction of Jacana commenced in August 2007 and was completed in December 2009.

Myna
Myna is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total 246 residential units, 95% were sold. Construction of Myna commenced in May 2008 and was completed in July 2010.

Carola
Carola is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total 248 residential units, 67% were sold. Construction of Carola commenced in August 2009 and was completed in Aug 2012.

Miranda
Miranda is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total of 248 residential units, 85% were sold. Construction of Miranda commenced in August 2009 and was completed in October 2011.

Pico de Loro Beach and Country Club

Pico de Loro Beach and Country Club is a leisure facility located at Pico de Loro Cove. Costa del Hamilo, as developer, executed a deed of conveyance of the titles to the lots and buildings, and in return owns 4,000 shares, of which 30% were sold. The beach club was completed and opened in 2009, while the country club was completed in June 2010.

Land Bank in Costa del Hamilo

Of the 40-hectare property bounded by Pico de Loro Cove, 19.6 hectares remain undeveloped for future residential and recreational development opportunities.

SM Prime, through its subsidiary Costa, intends to purchase additional land bank for development within the Hamilo Coast area in the near to medium term.

C. COMMERCIAL PROPERTIES

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

Completed Commercial Properties

Mall of Asia (MOA) Complex
SM Prime's flagship project is the MOA Complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor development and main attraction, among other commercial, business, and entertainment establishments within the estate. Most recently, a major attraction in the complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building that houses additional parking spaces as well as office levels. The MOA

complex is also the site of SM Prime's signature business complex, the E-com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO companies and shipping companies.

Two E-com Center
Two E-com Center is a 15-story office and commercial building housing BPOs and technology intensive businesses, as well as location based firms such as shipping and logistics. This iconic structure located in MOA Complex, Pasay City offers approximately 70,000 sq. m. of office and commercial space, and premium views of Manila Bay and the Makati skyline. It is designed by Miami based Arquitectonica, with FS Lim & Associates as local architect of record. Commercial spaces are located at both the ground floor and the fourth floor podium level called the Prism Plaza. Current tenants of the building include SMDC, EXL Service, Sky Logistics/Kitchen, World Energy Corporation, OOCL Philippines, XO Minerals, Microsourcing, Stream International Global Services Philippines Inc., ACS of the Philippines, Ben Line Agencies/Simba Logistics, Klaveness, SITC, IGT, Asia Pilot Capital Holdings, Ocwen Business Solutions, Altisource Business Solutions, Teletech Global, Belle Corporation, CMA CGM, Altron Logistics Inc./Enzo Express Logistics Inc./DSF Consolidated Freight Services Inc., Anscor Swire Ship Management Corporation and Esco Global.

SM Makati Cyber One
SM Makati Cyber One is a four-story office building with GFA of approximately 18,800 sq. m. The development rises along Zodiac Street corner Gil Puyat Avenue and is visible along major routes such as EDSA, Gil Puyat and the Kalayaan overpass. Current tenants of the building include Perimeter Internet Working Corporation, Bayantrade Inc. & ABM Computech Enterprises, K Force Global Solutions Inc. and Startek International.

SM Makati Cyber Two
SM Makati Cyber Two is a four-story office building with GFA of approximately 16,900 sq. m. The development is along corners of Sen. Gil J. Puyat Avenue (Buendia)/Jupiter/Zodiac Streets, Makati City. The major tenant of the building is VXI Global Holdings B.V. (Philippines). SM Prime also owns the land SM Makati Cyber Two is built upon.

Future Commercial Developments

Five E-Com Center (rename from three to five Ecom)
Five E-com Center, which broke ground in the first quarter of 2012, is targeted for completion by the first quarter of 2015. Similar to its predecessor Two E-com Center, Five E-com Center will feature architectural designs of Miami based firm Arquitectonica, with FS Lim & Associates as the local architect of record. The 15-level office building will cover a GFA of over 125,000 sq. m. and an estimated gross leasable area ("GLA") of 79,000 sq. m. Floor plates are at an average of 6,800 sq. m., one of the most expansive in the local office leasing market. Similar to Two E-com Center as well, Five E-com Center will also feature a mixed-use component on its fourth level podium.

Three E-Com Center (rename from four to three Ecom)
Three E-com Center will be a 15-story office building with a three level parking podium and the ground level designed to cater the commercial and retail tenants. Similar to Two E-com Center and Five E-com Center, Three E-com Center will feature architectural designs of Miami based firm Arquitectonica. The GFA is expected to be approximately 100,000 sq. m. The project is targeted to break ground by 2014.

SM Cyber Series
A new standalone office building development in the SM Cyber series, this future development will be a 15-level office building development located on a highly visible and prime 2,910 sq. m. owned property at the corner of EDSA and West Avenue. Dubbed SM Cyber West Avenue, the building will cover a GFA of more than 42,000 sq. m., with approximately 22,700 sq. m. of GLA for office space. The remaining leasable area in the ground and second levels will feature a SaveMore supermarket and

other support retail and commercial establishments. Additionally, it will be linked via bridgeways to the SM North EDSA mall as well as nearby MRT stations. The project is targeted for completion by the second quarter of 2014 and is 100% committed for occupancy under two signed leases.

Makati Avenue Commercial Building
The building is located in Makati Avenue corner Anza St., Makati City with a GFA of 1,869 sq.m. The construction of the two-storey commercial building started September 2013 and expected to be completed by third quarter of 2014.

Department stores and Supermarkets

SM Prime also owns several department store and supermarket buildings with a total GFA of approximately 291,000 sq. m. The major tenant of these buildings is the SM Retail Group. The following table sets forth certain information regarding SM Prime's department store and supermarket buildings as of December 31, 2013:

Department stores *(The SM Store)*	**Location**	**GFA (sq. m.)**	**Occupancy (%)**
SM Cubao	Quezon City	103,035	98.00
SM Makati	Makati City	109,667	97.00
SM Iloilo	Iloilo City	34,382	97.00

Supermarkets *(Hypermarket and Savemore)*	**Location**	**GFA (sq. m.)**	**Occupancy (%)**
Caloocan	Quezon City	12,011	100.00
Del Monte	Quezon City	1,854	100.00
Novaliches	Quezon City	5,123	100.00
Tandang Sora	Quezon City	1,358	100.00
Kamias	Quezon City	2,071	100.00
P. Tuazon	Quezon City	2,082	100.00
Adriatico	Manila City	14,769	100.00
Pedro Gil	Manila City	1,379	100.00
Jaro Iloilo	Iloilo City	3,759	100.00

Except for the department stores and the Adriatico and Jaro Supermarkets, SM Prime also owns the land on which the retail establishments listed in the table above are situated.

Warehouses

SM Prime also owns several warehouses with a total GFA of approximately 37,000 sq. m. and total lot area of approximately 65,000 sq. m. that are strategically located in various areas that support the retail operations.

SM Prime owns a parcel of land located in Parañaque City with a lot area of 50,584 sq. m. The property is leased to SMIC where the Asinan warehouses currently stand.

Other Properties for Commercial Use

Laon Laan Property
The property is located at Laon Laan corner Blumentritt Streets, Sampaloc District, City of Manila. The building GFA is 1,372 sq. m, with a lot area of 1,211 sq. m. This property is currently vacant.

Caloocan Lot

Caloocan lot is located at the corners of McArthur Highway/Samson Road/Gen. P. Valenzuela Street, Barangay 78, Zone 7, District 1, Caloocan City, with a lot area of 1,400 sq. m.

San Miguel District Lot

San Miguel District lot is located at Carlos Palanca, San Miguel District, City of Manila, with a lot area of 1,033 sq. m.

Jaro Lot

Jaro Lot is located at 98 E. Libertad, Jaro, Iloilo City and has a lot area of 2,561 sq. m.

Jetty Terminal

Jetty Terminal is located in MOA Complex. SM Prime is currently developing a breakwater project to further improve the Jetty Terminal service.

Sky Ranch

SM Prime has also ventured into certain lifestyle-oriented mixed-use developments. Sky Ranch will be an entertainment venue in Tagaytay. The nearly four-hectare property is adjacent to the Taal Vista Hotel, and was developed to complement the hotel's strong presence as a well-known destination in the area. To maximize the site's premium views and distinctive natural environment, a social events venue is included which will be complemented by casual, family style dining establishments, as well as a mini-amusement theme park for kids and other recreational facilities such as horseback riding. The property is currently operational but will be expanded further in 2014.

SM Arena

The SM Arena is a five-story, first class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events. The arena has a seating capacity of approximately 16,000. It occupies approximately two hectares of land and has a GFA of approximately 68,000 sq. m. It is adjacent to the upcoming South Parking Building of the MOA and is right in front of the SMX Convention Center Manila. The SM Arena is connected to a large platform parking plaza and park that will be built in between the SMX Convention Center Manila and the arena itself. Provisions for two future office blocks are also included in the arena's master plan.

Mall of Asia Arena Annex Building

MOA Arena Annex Building is an 11-story building with total GFA of 95,273 sq. m. It is designed to serve the parking needs of MOA Arena with 1,469 parking slots from ground to 7th floor. The 8th to 11th floor, with approximately 30,000 sq. m., are leased out as office space. The current tenants are SM Affiliates occupying 16,000 sq. m. The remaining vacant spaces are scheduled to be occupied by a company in March 2014 and a BPO company in August 2014. This property is still awaiting certification from the Philippine Economic Zone Authority ("PEZA"). Occupancy is expected to rise after the receipt of such certification.

Casino Building

Casino Building is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total GFA of 19,394 sq. m. Its only tenant is Philippine Amusement and Gaming Corp. for a 25-year lease term ending on 2033.

Tagaytay Lot

Tagaytay lot is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total land area of 117,992 sq. m. The Sky Ranch occupied the 45,264 sq. m. of the land area.

Corporate Office Buildings A to F
Corporate Office buildings are composed of Buildings A to F with a total GFA of 46,883 sq. m. Buildings A to E are leased to SM Affiliates while Building F is leased to Teletech Customer Care Management Corp.

Tagaytay Resort and Development Corporation Property

Tagaytay Resort Development Corporation (TRDC) is 100% owned by SM Prime. TRDC owned a land which is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City, with a total land area of 182,857 sq. m. Casino building occupied 9,444 sq. m. of the land area.

Prime Metroestate Inc. Properties

Prime Metroestate, Inc. (PMI) is 60% owned by SM Prime. PMI converted the concentration of its business operations from wholesale/retail of food and non-food articles to leasing.

PMI acts as a landlord for the following commercial properties leased by SM Food Retail Group:

Lot Location	Approximate Area (sq. m.)
Imelda Ave., Cainta, Rizal & Int. Imelda Ave., Rosario, Pasig City	41,000
Anabu I-B Imus, Cavite	37,000
Quirino Highway, Talipapa, Balintawak, Quazon City	30,000
East Service Road, Sucat, Muntinlupa City	40,000
Manila Harbor Center, Tondo, Manila City	26,000
II-A;II-B & Lot 1;Along H. Cortes Ext., Subangdaku, Mandaue City	36,000
Km. 7 McArthur Highway, Bangkal, Davao City	36,000

Land Bank

PMI has invested in various properties located in prime locations across the Philippines. The table below sets forth the locations of PMI's land inventory as of December 31, 2013:

Location	Area (sq. m.)
Caruncho St., Malinao, Pasig City	2,777
Brgy. Villasis/Pobalcion, Santiago City, Isabela	4,383
Palacio Real, Brgy. Makiling, Calamba City	40,000
Rosario, Batangas	7,189
Barangay Bucandala, Imus, Cavite	34,283
Molo, Iloilo	9,297
Total	**97,929**

D. HOTELS AND CONVENTION CENTERS

SMHCC is a wholly-owned of SM Prime. Its primary purpose is to develop and manage the various hotel and convention properties of the SM group. SMHCC is guided by its mission to be the leading hotels and conventions' company and its vision to build and operate hotels and convention center that take pride in Filipino warmth and hospitality. SMHCC endeavors to meet global standards of consistent, excellent service that create memorable experiences.

As of December 31, 2013, SMHCC portfolio is composed of four hotels and three convention centers with over 32,000 sq. m. of leasable convention space.

SMX Convention Centers

The Company has three SMX Convention centers located in MOA Complex (Pasay City), SM Lanang Premier (Davao City) and SM Aura Premier (Taguig City). The structure of a convention center is made up of large exhibit floors which can be divided into multiple exhibition and function halls. With its state of the art convention and exhibition facilities, it continues to host major internal and local conventions and exhibitions.

Taal Vista Hotel

Taal Vista is located in Tagaytay. In 2009, a newly constructed east wing building with 133 guest rooms (making it a total of 261 rooms) and a 1,000-seater ballroom became fully operational.

Radisson Blu Hotel

Radisson Blu Hotel is a 400-room hotel in Cebu that is launched in the last quarter of 2010. The first hotel managed by Carlson International in Asia-Pacific region to be classified under its “Blu” upscale hotel brand category. The property has been classified as a deluxe hotel category by the Department of Tourism and its facilities include an in-house spa, fitness center, business center, 800-sq. m. swimming pool, club lounge, two ballrooms and a number of smaller meeting rooms. It is strategically located beside SM City Cebu and is adjacent to the International Port Area.

Pico Sands Hotel

Pico Sands Hotel is a 154 room resort-type hotel in Hamilo Coast in Nasugbu, Batangas. The spacious rooms equipped with modern facilities and captivating views of lush mountains and tranquil lagoon. Pico Sands Hotel is located within Pico de Loro Cove, the maiden community of Hamilo Coast, the premier seaside leisure development of Costa del Hamilo.

Park Inn by Radisson

Park Inn by Radisson Davao is the very first “Park Inn by Radisson” in Asia Pacific region. The Park Inn brand for hotels under Carlson Rezidor and is the largest mid-market brand for hotels under development in Europe. Park Inn by Radisson Davao hotel project has 204 rooms located in Lanang, Davao City. The hotel started its commercial operations in March 2013.

SM Hotels also signed with Carlson Rezidor for the second Park Inn by Radisson which is located adjacent to the SM Mall in Clark. This hotel is scheduled to open in the last quarter of 2014 with 150 rooms.

Conrad Hotel

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

ITEM 3. Legal Proceedings

Please refer to Note 13 of the attached 2013 consolidated financial statements.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

CASH DIVIDEND PER SHARE - ₱ 0.27 in 2013, ₱ 0.29 in 2012 and ₱ 0.27 in 2011.

	2013		2012	
Stock Prices	High	Low	High	Low
First Quarter	₱ 20.80	₱ 16.10	₱ 18.20	₱ 13.30
Second Quarter	21.90	14.30	17.28	12.10
Third Quarter	19.00	14.64	14.32	12.54
Fourth Quarter	19.62	14.40	17.02	13.90

The Company's shares of stock is traded in the Philippine Stock Exchange. As of December 31, 2013, the total number of shares owned by the public is 7,348,336,506 or 26.42% of the issued and outstanding shares of the Company.

As of February 28, 2014, the closing price of the Company's shares of stock is ₱14.60/share. For the two months ending February 28, 2014, stock prices of SMPH were at a high of ₱15.52 and a low of ₱14.10.

The number of shareholders of record as of February 28, 2014 was 2,547. Capital stock issued and outstanding as of February 28, 2014 was 27,819,130,544. As of December 31, 2013, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 21 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2014 are as follows:

Name	No. of Shares Held	% to Total
1. SM Investments Corporation	14,197,128,987	51.03
2. PCD Nominee Corp. (Non-Filipino)	4,167,803,375	14.98
3. PCD Nominee Corp. (Filipino)	1,899,863,881	6.83
4. Henry Sy, Sr.	893,395,579	3.21
5. Hans T. Sy	685,395,579	2.46
6. Henry Sy, Jr.	680,198,440	2.45
7. Teresita T. Sy	666,708,532	2.40
8. Herbert T. Sy	666,389,522	2.40
9. Harley T. Sy	661,643,367	2.38
10. Elizabeth T. Sy	654,115,892	2.35
11. Felicidad Sy	648,515,413	2.33
12. Syntrix Holdings, Inc.	309,447,010	1.11
13. Sysmart Corporation	263,226,285	0.95
14. Mountain Bliss Resort and Development Corp.	156,335,965	0.56
15. Belle Corporation	108,615,313	0.39
16. Cutad, Inc.	19,694,544	0.07
17. HSBB, Inc.	19,694,400	0.07

18. Lucky Securities, Inc.	3,000,000	0.01
19. Vicente O. Yu or Estrella R. Yu	2,890,157	0.01
20. Philippine Air Force Educational Fund, Inc.	2,140,923	0.01

As discussed in Note 20 of the consolidated financial statements, the following securities were issued as exempt from the registration requirements of the SRC and therefore have not been registered with the Securities and Exchange Commission:

- On June 3, 2013, the Company issued Series "A" and Series "B" peso-denominated seven-year and ten-year fixed rate corporate notes amounting to ₱3,740 million and ₱2,460 million, respectively. The loans bear fixed interest rate of 5.57% and 5.88% for the seven-year and ten-year fixed, respectively. The loans have bullet maturities on June 3, 2020 and June 3, 2013, respectively. The notes issued are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (SRC).

- On June 28, 2013, the Company issued a peso denominated fixed rate corporate notes amounting to ₱2,000 million. The loan bears fixed interest rate of 5.71% payable semi-annually with maturity date of June 28, 2020. The notes issued are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (SRC).

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exemption transaction. The Company has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

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

<u>2013</u>

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

	Twelve months ended Dec 31				
	2013	**% to Revenues**	**2012**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	59,794	100%	57,215	100%	5%
Costs and expenses	35,659	60%	35,145	61%	1%
Operating Income	24,136	40%	22,070	39%	9%
Net Income	16,275	27%	16,203	28%	0%
EBITDA	30,116	50%	27,197	48%	11%

	Dec 31 2013	**% to Total Assets**	**Dec 31 2012**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	335,584	100%	284,652	100%	18%
Investment Properties	171,666	51%	147,854	52%	16%
Total Debt	106,313	32%	80,580	28%	32%
Net Debt	77,132	23%	56,121	20%	37%
Total Stockholders' Equity	163,267	49%	147,628	52%	11%

	Dec 31	
Financial Ratios	**2013**	**2012**
Debt to Equity	0.39 : 0.61	0.35 : 0.65
Net Debt to Equity	0.32 : 0.68	0.28 : 0.72
Return on Equity	0.10	0.12
Debt to EBITDA	3.53	2.96
EBITDA to Interest Expense	8.17	8.87
Operating Income to Revenues	0.40	0.39
EBITDA Margin	0.50	0.48
Net Income to Revenues	0.27	0.28
Debt Service Coverage Ratio	2.15	1.09

Revenue

SM Prime recorded consolidated revenues of ₱59.79 billion in the year ended 2013, an increase of 5% from ₱57.22 billion in the year ended 2012 , primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱32.20 billion in 2013, an increase of 11% from ₱28.95 billion in 2012. The increase in rental revenue was primarily due to the full-year effect of new malls opened in 2012, namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier and the opening in 2013 of SM Aura Premier, with a total gross floor area of 698,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased, primarily as a result of full year recognition of Two-Ecom, which began operations in mid-2012 and is now 98% occupied.

Real Estate Sales

SM Prime recorded an 8% decrease in real estate sales in 2013 to ₱20.78 billion from ₱22.58 billion in 2012. The decrease in real estate sales is primarily due to lower sales take up of projects in 2013 compared to last year. This is attributable to project launches in 2010 and 2011 which were more "blockbusters" namely, Shell, Green and Jazz compared to launches in 2012 of Breeze and Grace. Sale of projects launched in 2013 were towards the last quarter already which is expected to contribute significantly to revenues starting in 2014. Three projects were launched in 2013 namely, Grass Phase 2, Shore and Trees.

Cinema Ticket Sales

SM Prime cinema ticket sales increased by 8% to ₱3.74 billion in 2013 from ₱3.48 billion in 2012. The increase was primarily the result of opening of additional digital cinemas at the new malls which enabled simultaneous nationwide releases and more blockbuster movies screened, both local and international. The major blockbusters shown in 2013 were "Ironman 3," "Man of Steel," "It Takes a Man and a Woman," "Thor: The Dark World," and "My Little Bossing."

Other Revenues

Other revenues likewise increased by 40% to ₱3.08 billion in 2013 from ₱2.21 billion in 2012. The increase was mainly due to opening of new amusement rides in SM by the Bay and the Sky Ranch in Tagaytay and increase in advertising income and sponsorship revenues.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱35.66 billion in the year ended 2013, an increase of 1% from ₱35.15 billion in the year ended 2012 , primarily due to the following:

Costs of Real Estate

Consolidated costs of real estate was ₱11.92 billion in 2013, representing a decrease of 15% from ₱13.97 billion in 2012. Apart from the lower recognized real estate costs in line with the lower recognized real estate sales in 2013, the decrease also resulted from tighter cost controls during project engineering stage and stricter monitoring of project costs implemented in 2013, which resulted in improved gross margins. Gross profit margins for residential improved to 43% in 2013 compared to 38% in 2012.

Operating Expenses

SM Prime's consolidated operating expenses increased by 12% to ₱23.74 billion in 2013 compared to last year's ₱21.17 billion. Same-store mall growth in operating expenses is 4%. The increase is attributable to the opening of new malls and expansions, full year operations of commercial properties and launch of new residential projects.

Consolidated marketing and selling expenses increased to ₱2.05 billion in 2013, an increase of 16% from ₱1.76 billion in 2012 due to launch expenses related to new mall openings and mall events, which were partially offset by a reduction in expenses related to SM Residences showrooms and exhibits, out-of-home and media-based advertising, as part of SMDC's overall rationalization of its cost structure.

Other contributors to the increase are business taxes and licenses, depreciation and amortization, and rent expenses, due to the opening of new malls and expansions, commercial properties and residential projects.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 20% to ₱3.69 billion in 2013 compared to ₱3.06 billion in 2012 due to new bank loans availed during 2013 for working capital and capital expenditure requirements.

Restructuring Costs

SM Prime incurred restructuring costs amounting to ₱1.28 billion in 2013. This pertains to actual payments and accrual of transaction costs related to the Reorganization.

Interest and Dividend Income

Interest and dividend income increased slightly by 3% to ₱1.09 billion in 2013 from ₱1.06 billion in 2012. This account is mainly composed of dividend and interest income received from investments held for trading, available-for-sale investments and cash and cash equivalents.

Net income

As a result of the foregoing, consolidated net income is flat at ₱16.27 billion in 2013. Excluding restructuring costs of ₱1.28 billion, net income would have increased by 8% for the twelve months ended December 31, 2013.

Balance Sheet Accounts

Cash and cash equivalents significantly increased by 27% from ₱21.30 billion to ₱27.14 billion as of December 31, 2012 and 2013, respectively. This account includes the remaining proceeds from short-term and long-term debt drawn in 2013 which will be used for working capital and capital expenditure requirements.

Investments held for trading decreased by 14% from ₱1.34 billion to ₱1.15 billion as of December 31, 2012 and 2013, respectively, mainly due to pretermination of investment in corporate bonds with an original maturity of 2016.

Receivables increased by 59% from ₱17.15 billion to ₱27.18 billion as of December 31, 2012 and 2013, respectively, mainly due to increase in sales of real estate and rental receivables.

Condominium and residential units significantly increased by 105% from ₱2.97 billion to ₱6.10 billion as of December 31, 2012 and 2013, respectively, mainly due to transfers of costs of completed condominium towers to inventory coming from Field, Grass Phase 1, Jazz, Light, MPST, Princeton, Sun and Wind.

Likewise, land and development increased by 8% from ₱32.28 billion to ₱34.82 billion as of December 31, 2012 and 2013, respectively, mainly due to cumulative construction costs incurred for residential developments including land banking activities.

Available-for-sale investments slightly decreased by 4% from ₱24.30 billion to ₱23.37 billion as of December 31, 2012 and 2013, respectively, mainly due to early redemption of investment in corporate notes amounting to ₱1.0 billion at par last May 2013.

Investment properties increased by 16% from ₱147.85 billion to ₱171.67 billion as of December 31, 2012 and 2013, respectively, primarily because of ongoing new mall projects located in Cauayan City, Cebu City in the Philippines and Zibo and Tianjin in China. Expansions and renovations in SM Megamall which was recently opened last January 28, 2014, SM City Bacolod, SM City Sta. Rosa, SM City Lipa, SM City Clark and SM City Dasmariñas are also in progress. The increase is also attributable to the acquisition of additional land bank and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five-Ecom, SM Cyberwest and Conrad Hotel.

Derivative assets significantly increased from ₱109.98 million as of December 31, 2012 to ₱1,778.81 million as of December 31, 2013, mainly resulting from unrealized mark-to-market gains on a $350 million cross currency swap transaction designated as a cash flow hedge and the outstanding interest rate swaps designated as fair value hedges. On the other hand, derivative liabilities decreased by 35% from ₱244.33 million as of December 31, 2012 to ₱159.97 million as of December 31, 2013, due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

Deferred tax assets significantly increased from ₱0.49 billion to ₱0.69 billion as of December 31, 2012 and 2013, respectively, mainly resulting from the SM Property group restructuring transaction.

Other noncurrent assets increased by 30% from ₱22.43 billion to ₱29.27 billion as of December 31, 2012 and 2013, respectively, mainly due to investment in associates and deposits for acquisition of properties. This account also includes noncurrent capitalized input tax, deposits to contractors, suppliers and advances and deposits paid for leased properties.

Loans payable decreased from ₱8.97 billion to ₱3.25 billion as of December 31, 2012 and 2013, respectively, due to subsequent payments of maturing loans.

The increase in accounts payable and other current liabilities by 32% from ₱34.40 billion to ₱45.30 billion as of December 31, 2012 and 2013, respectively, is mainly due to payables to mall and residential contractors and suppliers related to ongoing projects and accrued operating expenses.

Long-term debt increased by 44% from ₱71.61 billion to ₱103.06 billion as of December 31, 2012 and 2013, mainly to fund capital expenditures and for working capital requirements.

The increase in tenants' deposits by 14% from ₱8.97 billion to ₱10.25 billion as of December 31, 2012 and 2013, respectively, is due to the new malls and expansions which opened in 2012 and 2013. On the other hand, liability for purchased land decreased from ₱4.20 billion to ₱1.12 billion as of December 31, 2012 and 2013, respectively, due to subsequent payments.

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

Interest-bearing debt to stockholders' equity increased to 0.39:0.61 from 0.35:0.65 as of December 31, 2013 and 2012, respectively, while net interest-bearing debt to stockholders' equity also increased to 0.32:0.68 from 0.28:0.72 as of December 31, 2013 and 2012, respectively, due to the additional borrowings. Debt service coverage ratio increased to 2.15:1 from 1.09:1 for the years ended December 31, 2013 and 2012, respectively, due to higher operating cash flows in 2013 compared to 2012.

In terms of profitability, ROE decreased to 10% from 12% for the years ended December 31, 2013 and 2012, respectively, due to restructuring costs. Excluding the one-time restructuring costs, ROE would have been 11% in the year ended 2013. EBITDA increased by 11% to ₱30.12 billion in 2013 from ₱27.20 billion in 2012.

Debt to EBITDA increased to 3.53:1 from 2.96:1 as of December 31, 2013 and 2012, respectively, due to increase in long-term debt. While EBITDA to interest expense decreased to 8.17:1 from 8.87:1 for the years ended December 31, 2013 and 2012, respectively, due to higher interest expense in 2013. EBITDA margin improved at 50% from 48% for the years ended December 31, 2013 and 2012, respectively.

Consolidated operating income to revenues remains steady at 40% and 39% for the years ended December 31, 2013 and 2012. Net income to revenues is steady at 27% and 28% for the years ended December 31, 2013 and 2012.

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

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

For the year 2014, the Company expects to incur capital expenditures of approximately ₱71 billion. This will be funded with internally generated funds and external borrowings.

As of December 2013, SM Prime has twenty two residential projects in the market, twenty one of which are in Metro Manila and one in Tagaytay. For this year, SM Prime is launching four new projects and four expansions of existing towers all in Metro Manila, except Wind in Tagaytay.

SM Prime's mall business unit has forty eight shopping malls in the Philippines with 6.2 million square meters of gross floor area and five shopping malls in China with 0.8 million square meters of gross floor area. For the rest of 2014, the mall business unit will open three new malls, located in Cauayan and Angono in the Philippines and Zibo in China, as well as expansion of four existing malls. By end 2014, the mall business unit will have an estimated 7.5 million square meters of gross floor area.

2012

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

	Twelve months ended Dec 31				
	2012	**% to Revenues**	**2011**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	57,215	100%	50,069	100%	14%
Costs and expenses	35,145	61%	30,772	61%	14%
Operating Income	22,070	39%	19,297	39%	14%
Net Income	16,203	28%	13,629	27%	19%
EBITDA	27,197	48%	24,121	48%	13%

	Dec 31 2012	**% to Total Assets**	**Dec 31 2011**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	284,652	100%	228,863	100%	24%
Investment Properties	147,854	52%	129,972	57%	14%
Total Debt	80,580	28%	55,932	24%	44%
Net Debt	56,121	20%	35,513	16%	58%
Total Stockholders' Equity	147,628	52%	126,658	55%	17%

	Dec 31	
Financial Ratios	**2012**	**2011**
Debt to Equity	0.35 : 0.65	0.31 : 0.69
Net Debt to Equity	0.28 : 0.72	0.22 : 0.78
Return on Equity	0.12	0.11
Debt to EBITDA	2.96	2.32
EBITDA to Interest Expense	8.87	8.22
Operating Income to Revenues	0.39	0.39
EBITDA Margin	0.48	0.48
Net Income to Revenues	0.28	0.27
Debt Service Coverage Ratio	1.09	2.25

Revenue

SM Prime recorded consolidated revenues of ₱57.22 billion in the year ended 2012, an increase of 14% from ₱50.07 billion in the year ended 2011 , primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱28.95 billion in 2012, an increase of 15% from ₱25.21 billion in 2011. The increase in rental revenues was primarily due to rentals from new malls which opened in 2011 and 2012, namely SM Masinag, SM City Olongapo, SM Consolacion, SM City San Fernando, SM City General Santos and SM Lanang Premier. These new malls added a total gross floor area of 527,000 square meters to SM Prime's mall portfolio. Rental revenues also increased in the commercial segment due to the opening of Two-Ecom in mid-2012.

Real Estate Sales

SM Prime recorded a 30% increase in real estate sales in 2012 to ₱22.58 billion from ₱17.36 billion in 2011. The increase in real estate sales was primarily a result of more real estate sales being recognized in 2012 due to higher construction accomplishments in 2012 for project launches in 2010 namely, Jazz, Light, Wind, My Place South Triangle and Blue Residences compared to project launches in the second-half of 2009 namely, Field, Princeton and Sun Residences, which are the main contributors to revenues from real estate in 2011. Projects with the highest actual revenues realized coming from increases in percentage of completion included Sun, Light, Blue and Grass Residences.

Cinema Ticket Sales

SM Prime cinema ticket sales increased by 14% to ₱3.48 billion in 2012 from ₱3.05 billion in 2011. The increase in cinema ticket sales was primarily the result of opening additional cinemas at the new malls, having more blockbuster movies (both local and international) and the conversion to digital cinemas which enabled higher ticket prices and simultaneous nationwide releases. The major blockbusters shown in 2012 were "The Avengers," "Twilight Saga: Breaking Dawn Part II," "The Amazing Spiderman," "This Guy's in Love with U Mare," "The Mistress" and "Sisterakas"

Other Revenues

Other revenues decreased by 50% to ₱2.21 billion in 2012 from ₱4.45 billion in 2011. The decrease in other revenues was primarily the result of the conversion of Makro stores into SM Hypermarket stores starting 2011, which was previously recorded under Prime Metroestate, Inc. (PMI). With the conversion of Makro stores into SM Hypermarkets, PMI likewise changed its business operations from wholesale/retail of food and non-food articles to leasing. Excluding the sale of merchandise recorded in 2011 amounting to ₱2.8 billion in 2011, other revenues increased by 34% to ₱2.21 billion in 2012 from ₱1.65 billion in 2011 mainly from an increase in amusement income as well as an increase in forfeited residential customer deposits resulting from forfeitures of sales reservations and sales cancellations, which increased to ₱0.6 billion in 2012 compared to ₱0.2 billion in 2011.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱35.15 billion in the year ended 2012, an increase of 14% from ₱30.77 billion in the year ended 2011 , primarily due to the following:

Costs of Real Estate

Consolidated costs of real estate was ₱13.97 billion in 2012, representing an increase of 36% from ₱10.30 billion in 2011. The increase in costs of real estate was primarily due to costs related to higher recognized real estate sales due to greater construction accomplishments in 2012. Gross profit margins for residential decreased slightly to 38% in 2012 compared to 41% in 2011.

Operating Expenses

SM Prime's consolidated operating expenses increased by 3% to ₱21.17 billion in 2012 compared to last year's ₱20.47 billion 2011 due to new malls and expansions opened in 2012 and 2011. Same-store mall growth in operating expenses is 8%.

SM Prime's consolidated marketing and selling expenses increased to ₱1.76 billion in 2012, an increase of 35% from ₱1.31 billion in 2011 primarily due to an increase in the number of residential sales people, increased selling events organized locally and abroad, as well as from higher media communication spending, sales commissions, allowances and incentives recognized as a result of an increase in real estate sales recognized.

SM Prime's consolidated other operating expenses decreased to ₱0.92 billion in 2012, a decrease of 70% from ₱3.04 billion in 2011. The decrease in other operating expenses was primarily due to the discontinued operations of Makro, which led to a reduction in the cost of merchandise sold. Excluding the cost of Makro merchandise sold, other operating expenses increased by 26% from ₱0.73 billion in 2011 to ₱0.92 billion in 2012 due to accrual of retirement benefits, supplies, transportation, travel and others increasing over the prior year due to an increase in the number of malls and the corresponding manpower increase.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 4% to ₱3.06 billion in 2012 compared to ₱2.93 billion in 2011. The increase in interest expense was relatively flat despite the availment of new loans to finance capital expenditure requirements due to refinancing of higher interest-bearing loans and an overall decrease in market interest rates.

Interest and Dividend Income

Interest and dividend income decreased by 10% to ₱1.06 billion in 2012 from ₱1.18 billion in 2011 due to lower dividend income received from AFS investments. This account is mainly composed of dividend and interest income received from investments held for trading, available-for-sale investments and cash and cash equivalents.

Net income

As a result of the foregoing, consolidated net income increased by 19% at ₱16.20 billion in 2012 from ₱13.63 billion in 2011.

Balance Sheet Accounts

Cash and cash equivalents significantly increased by 23% from ₱17.35 billion to ₱21.30 billion as of December 31, 2011 and 2012, respectively. This account includes the remaining proceeds from loans drawn in 2012 which will be used for working capital and capital expenditure requirements.

Investments held for trading increased by 12% from ₱1.20 billion to ₱1.34 billion as of December 31, 2011 and 2012, respectively, mainly due to increase in market price of the listed shares.

Receivables increased by 48% from ₱11.62 billion to ₱17.15 billion as of December 31, 2011 and 2012, respectively, attributable to the increase in receivables from tenants and real estate buyers.

Condominium and residential units significantly increased by 214% from ₱0.95 billion to ₱2.97 billion as of December 31, 2011 and 2012, respectively, mainly due to the completion of "ready for occupancy (RFO)" units of Mezza Residences, Chateau Elysee, Sea Residences, Grass Residences and Field Residences.

Likewise land and development increased by 37% from ₱23.64 billion to ₱32.28 billion as of December 31, 2011 and 2012, respectively, mainly due to additional land banking activities in various locations within Metro Manila and construction accomplishments of existing projects.

Available-for-sale investments increased by 43% from ₱17.05 billion to ₱24.30 billion as of December 31, 2011 and 2012, respectively, mainly due to higher market prices of listed shares held under these portfolios.

Property and equipment increased by 35% from ₱1.18 billion to ₱1.60 billion as of December 31, 2011 and 2012, respectively, mainly due to additional costs of leasehold improvements for offices and showrooms.

Investment properties increased by 14% from ₱129.97 billion to ₱147.85 billion as of December 31, 2011 and 2012, respectively, primarily because of ongoing new mall projects located in Taguig, Parañaque and Cebu City in the Philippines and Zibo and Tianjin in China. The increase is also attributable to land banking activities.

Derivative assets slightly decreased by 5% from ₱115.62 million to ₱109.98 million as of December 31, 2011 and 2012, respectively mainly due to revaluation. On the other hand, derivative liabilities increased by 3% from ₱237.98 million to ₱244.33 million as of December 31, 2011 and 2012, mainly resulting from mark-to-market losses on interest rate swaps used to hedge interest rate exposure on loans.

Deferred tax assets increased by 23% from ₱395.55 million to ₱486.31 million as of December 31, 2011 and 2012, respectively, mainly due to the effect of recognition of certain accrued expenses, net operating loss carryover, allowance for doubtful accounts and minimum corporate income tax in 2012. Likewise, deferred tax liabilities increased by 14% from ₱1.77 billion to ₱2.01 billion as of December 31, 2011 and 2012, respectively, due to net unrealized foreign exchange gains, effect of unrealized gross profit and borrowing costs.

Other noncurrent assets increased by 74% from ₱13.12 billion to ₱22.43 billion as of December 31, 2011 and 2012, respectively, mainly due to the noncurrent receivable from real estate buyers. This account also includes noncurrent capitalized input tax, deposits to contractors, suppliers and advances and deposits paid for leased properties.

Loans payable significantly increased from ₱2.39 billion to ₱8.97 billion as of December 31, 2011 and 2012, respectively, due to availment of loans for working capital.

The increase in accounts payable and other current liabilities by 21% from ₱28.53 billion to ₱34.40 billion as of December 31, 2011 and 2012, respectively, mainly arising from trade payables related to ongoing mall constructions, commercial and residential development.

Long-term debt increased by 34% from ₱53.54 billion to ₱71.61 billion as of December 31, 2011 and 2012, due to new loan availments, net of prepayments, to finance capital expenditure requirements.

The increase in tenants' deposits by 12% from ₱7.98 billion to ₱8.97 billion as of December 31, 2011 and 2012, respectively, is due to the new malls and expansions which opened in 2012 and new commercial properties. Liability for purchased land also increased from ₱1.68 billion to ₱4.20 billion as of December 31, 2011 and 2012, respectively, due to land banking for malls and condominium projects.

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

Interest-bearing debt to stockholders' equity increased to 0.35:0.65 from 0.31:0.69 as of December 31, 2012 and 2011, respectively, while net interest-bearing debt to stockholders' equity also increased to 0.28:0.72 from 0.22:0.78 as of December 31, 2012 and 2011, respectively, due to the additional borrowings. Debt service coverage ratio decreased to 1.09:1 from 2.25:1 for the years ended December 31, 2012 and 2011, respectively, due to lower current portion of long-term debt in 2011.

In terms of profitability, ROE slightly improved to 12% from 11% for the years ended December 31, 2012 and 2011, respectively. EBITDA increased by 13% to ₱27.20 billion in 2012 from ₱24.12 billion in 2011.

Debt to EBITDA increased to 2.96:1 from 2.32:1 as of December 31, 2012 and 2011, respectively, due to increase in long-term debt. Likewise EBITDA to interest expense increased to 8.87:1 from 8.22:1 for the years ended December 31, 2012 and 2011, respectively, due to higher EBITDA in 2012. EBITDA margin is at 48% for the years ended December 31, 2012 and 2011.

Consolidated operating income to revenues remains steady at 39% for the years ended December 31, 2012 and 2011. Net income to revenues improved at 28% and 27% for the years ended December 31, 2012 and 2011.

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

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

As of December 31, 2012, SM Prime's mall business unit has forty six shopping malls strategically located in the Philippines with a total gross floor area of 5.6 million square meters. Likewise, the SM Prime has five shopping malls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, and Chongqing in China with a total gross floor area of 0.8 million square meters. For 2013, SM Prime is scheduled to launch SM Aura Premier in Taguig and SM City Cauayan in Isabela. SM Megamall, on the other hand, will be expanded with an additional 100,000 square meters. By year-end, SM Prime will have 48 malls in the Philippines and five in China with an estimated combined gross floor area of 6.8 million square meters.

As of December 2013, SM Prime through its subsidiary, SMDC, has eighteen residential projects under SM Residences brand and one project under the M Place brand. For the year 2013, SM Prime's residential business unit is targeting to launch at least three new projects in various cities within Metro Manila. In addition, it shall continue to search for viable locations in key cities in Metro Manila in response to the increasing demands for residences.

<u>2011</u>
Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2011	**% to Revenues**	**2010**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	50,069	100%	42,988	100%	16%
Costs and expenses	30,772	61%	27,047	63%	14%
Operating Income	19,297	39%	15,940	37%	21%
Net Income	13,629	27%	11,805	27%	15%
EBITDA	24,121	48%	20,266	47%	17%

Revenue

SM Prime recorded consolidated revenues of ₱50.07 billion in the year ended 2011, an increase of 16% from ₱42.99 billion in the year ended 2010 , primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱25.21 billion in 2011, an increase of 17% from ₱21.54 billion in 2010. The increase in rental revenues was primarily due to rentals from new SM Supermalls opened in 2010 and 2011, namely, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Novaliches and SM Masinag. The new malls added a total gross floor area of 380,000 square meters to SM Prime's mall portfolio. Excluding the new malls and expansions, same-store rental growth is 7%.

Real Estate Sales

SM Prime recorded a 55% increase in real estate sales in 2011 to ₱17.36 billion from ₱11.22 billion in 2010. The increase in real estate sales was primarily a result of higher recognized sales due to higher construction accomplishments for projects launched in 2008 and 2009 including Field and Princeton, projects launched in 2009, and Sea Residences, launched in 2008. Revenues from real estate sales in 2010 came from projects launched in 2007, namely, Mezza, Berkeley and Grass Phase 1 as well as Sea Residences that was launched in 2008.

Cinema Ticket Sales

SM Prime cinema ticket sales increased by 10% to ₱3.05 billion in 2011 from ₱2.76 billion in 2010. The increase in cinema ticket sales was largely due to result of additional cinema openings at the new malls and the success of local and international blockbuster movies shown in 2011 as compared to 2010. The major blockbusters shown in 2011 were "Transformers 3: Dark of the Moon," "Praybeyt Benjamin," "Harry Potter & The Deathly Hallow Part 2," "No Other Woman" and "Twilight Saga: Breaking Dawn Part 1."

Other Revenues

Other revenues decreased by 40% to ₱4.45 billion in 2011 from ₱7.47 billion in 2010. The decrease was primarily the result of the conversion of Makro stores into SM Hypermarket stores starting in 2011. With the conversion of Makro stores into SM Hypermarkets, PMI likewise changed its business operations from wholesale/retail of food and non-food articles to leasing. Excluding the sale of merchandise, other revenues increased by 30% to ₱1.65 billion in 2011 compared to ₱1.27 billion in 2010 due to an increase in amusement and sponsorship revenues.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱30.77 billion in the year ended 2011, an increase of 14% from ₱27.05 billion in the year ended 2010, primarily due to the following:

Costs of Real Estate

Consolidated costs of real estate was ₱10.30 billion in 2011, representing an increase of 68% from ₱6.15 billion in 2010. The increase in costs of real estate was primarily related to an increase in percentage-of-completion accomplishments from on-going projects. Gross profit margins decreased to 41% in the year ended December 31, 2011 compared to 45% in the year ended December 31, 2010.

Operating Expenses

SM Prime's consolidated operating expenses slightly decreased by 2% to ₱20.47 billion in 2011 compared to last year's ₱20.90 billion 2010 due to conversion of Makro stores into SM Hypermarkets beginning in 2011.

SM Prime's consolidated marketing and selling expenses increased by 61% to ₱1.31 billion in 2011 from ₱0.81 billion in 2010 due to an increase in the number of residential sales people, increased selling events organized locally and abroad, as well as from media communication spending, sales commissions, allowances and incentives recognized as a result of higher real estate sales recognized and new projects launched.

SM Prime's consolidated other operating expenses decreased by 46% to ₱3.04 billion in 2011 from ₱5.66 billion in 2010. The decrease in other operating expenses was primarily due to the conversion of Makro stores from wholesale/retail of food and non-food articles to leasing. Excluding the cost of Makro merchandise sold, other operating expenses increased by 42% from ₱0.52 billion in 2010 to ₱0.73 billion in 2011.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 16% to ₱2.93 billion in 2011 compared to ₱2.52 billion in 2010. The increase in interest expense was primarily due to new loans availed in 2011 for working capital and capital expenditure requirements, partially offset by a decrease in overall interest rates.

Interest and Dividend Income

Interest and dividend income increased by 39% to ₱1.18 billion in 2011 from ₱0.85 billion in 2010 to higher average balance of cash and cash equivalents held in 2011 compared to 2010, resulting from unused loan proceeds

Net income

As a result of the foregoing, consolidated net income increased by 15% at ₱13.63 billion in 2011 from ₱11.81 billion in 2010.

ITEM 7. Financial Statements

Please see the attached consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules.

ITEM 8. Information on Independent Accountant and Other Related Matters

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

Pursuant to SRC Rule 68, Paragraph 3(b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Mr. Ramon D. Dizon of SGV & Co. starting year 2009 and Ms. Belinda T. Beng Hui of SGV & Co. starting year 2011.

The Company and its subsidiaries paid SGV & Co. ₱7.0 million for external audit services for the years 2013 and 2012. SGV & Co. likewise did the review of the Pro-forma Financial Statements as at December 31, 2012 and for the years ended December 31, 2012, 2011 and 2010 and the audit and review of the Combined Financial Statements as at December 31, 2012 and for the years ended December 31, 2012, 2011 and 2010 and as at September 30, 2013 and for the periods ended September 30, 2013 and 2012, respectively, in relation to the SM Property Group Restructuring. There were no other professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from entities other than the external auditor.

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

Under the Charter of the Audit and Risk Management Committee, part of the Committee's authority is to pre-approve all auditing and non-audit services, as well as to resolve any disagreements between management and the external auditors regarding financial reporting. The Committee reviews the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit. The Manual on Corporate Governance provides that the Committee shall pre-approve all audit plans, scope and frequency one month before the conduct of external audit.

The Committee also evaluates the performance of the external auditors and exercises final approval on the appointment or discharge of the auditors. The Committee further reviews the independence of the external auditors and meets with the latter separately to discuss any matters that either party believes should be discussed privately.

PART III- CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman	Henry Sy, Sr.	Filipino	89
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	70
Independent Director	Gregorio U. Kilayko	Filipino	59
Independent Director	Joselito H. Sibayan	Filipino	55
Director and President	Hans T. Sy	Filipino	58
Director	Henry T. Sy, Jr.	Filipino	60
Director	Herbert T. Sy	Filipino	57
Director	Jorge T. Mendiola	Filipino	54
Adviser to the Board of Directors	Teresita T. Sy	Filipino	63
Adviser to the Board of Directors	Elizabeth T. Sy	Filipino	61
Executive Vice President	Jeffrey C. Lim	Filipino	52
Senior Vice President—Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary	Corazon I. Morando	Filipino	72

Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	55
Vice President – Information Technology	Kelsey Hartigan Y. Go	Filipino	48
Vice President – Finance (China Projects)	Diana R. Dionisio	Filipino	41
Vice President – Finance	Teresa Cecilia H. Reyes	Filipino	39
Vice President – Legal	Edgar Ryan C. San Juan	Filipino	38
Vice President – Internal Audit	Davee M. Zuniga	Filipino	42
Corporate Secretary/ Assistant Compliance Officer	Emmanuel C. Paras	Filipino	63

Board of Directors

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

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

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

Joselito H. Sibayan* has spent the past 27 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles, he was in Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director in 2011.

** Independent director – the Company has complied with the Guidelines set forth by Securities Regulation Code (SRC) Rule 38, as amended, regarding the Nomination and Election of Independent Director. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

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

Henry T. Sy, Jr. has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is also Vice Chairman of SMIC and SMDC, Vice Chairman and President of HPI, Director in BDO Unibank, Inc., Chairman of Pico de Loro Beach and Country Club Inc. and President of The National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

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

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

Teresita T. Sy has served as an Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of BDO Unibank, Inc. and Vice Chairman of SMIC. She also holds board positions in several companies within the SM Group.

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

Members of the Board of Directors are given a standard per diem of ₱10,000 per Board meeting, except for the Chairman and Vice Chairman which are given ₱20,000 per Board meeting.

<u>Senior Management</u>

Jeffrey C. Lim is the Executive Vice President and also the President and Chief Operating Officer of SMDC. He is a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SMPH's subsidiaries. He is a member of the Management Board of the Asia Pacific Real Estate Association. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company, he worked for a multi-national company and SGV & Co.

Corazon I. Morando is the Senior Vice President for Legal and Corporate Affairs, Compliance Officer and Assistant Corporate Secretary of the Company and SMIC, and Compliance Officer of SMDC. She is also Corporate Secretary of HPI and China Banking Corporation. She holds a Bachelor of Law degree from the University of the Philippines and completed her graduate studies under the MBA-Senior Executive Program in the Ateneo de Manila University. She was formerly the Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

Ronald G. Tumao is the Vice President for Market Research & Planning. He graduated from De La Salle University with a degree in BSC - Management of Financial Institutions. He later took his MBA at the Ateneo Graduate School in Makati City. He has over 10 years of experience in banking and finance and more than 10 years of experience in brand management and consumer marketing. He is in charge of property acquisition for SM. He joined the Company in 2001.

Kelsey Hartigan Y. Go is the Vice-President for Information Technology. He holds a Bachelor's Degree in Electronics & Communications Engineering and a Masters of Science Degree in Computer

Science, both from the De La Salle University, Manila. He was previously a professor of a university in the Philippines and was concurrently the Director of the Information Systems Center of the same university. He joined the Company in 1997.

Diana R. Dionisio is the Vice President for Finance (China Projects). She holds a Bachelor's degree in Accountancy from the University of Santo Tomas. Prior to joining the company, she was the accounting manager of a real property company. She started her professional career as staff auditor of SGV & Co. She joined the Company in 1999.

Teresa Cecilia H. Reyes is the Vice President for Finance. Prior to her joining the Company in June 2004 as a Senior Manager in the Finance Group, she was an Associate Director in the business audit and advisory group of SGV & Co. She graduated from De La Salle University with degrees in Bachelor of Science in Accountancy and Bachelor of Arts in Economics and placed 16th in the 1997 Certified Public Accountants board examinations.

Edgar Ryan C. San Juan is the Vice President for Legal. Prior to joining the Company in 2008, he was a Senior Associate Attorney at Puno and Puno Law Offices. He was also part of the Siguion Reyna Montecillo and Ongsiako Law Firm and the Bengson Law Firm, respectively. He holds a Juris Doctor degree from the Ateneo de Manila University School of Law and a Bachelor of Arts in the Humanities degree with specialization in Political Economy from the University of Asia and the Pacific.

Davee M. Zuniga is the Vice President for Internal Audit. He is a Certified Public Accountant and holds a Bachelor of Science degree in Commerce major in Accountancy from De La Salle University. He placed 14th in the CPA board examinations. He also attended the Executive MBA at Asian Institute of Management. Prior to joining in the Company in 2013, he was an assurance partner in SGV & Co.

Emmanuel C. Paras, is the Corporate Secretary and Assistant Compliance Officer of the Company and other companies in the SM Group. He is a Bachelor of Law graduate of the Ateneo de Manila and a partner of the SyCip Salazar Hernandez and Gatmaitan Law Offices.

All the Directors and Executive Officers of the Company, except those otherwise stated, have held their positions since the Company started operations in 1994.

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

Nomination of Independent Directors shall be conducted by the Nomination Committee prior to the stockholders' meeting. The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of independent directors and which list shall contain all the information about these nominees. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting. In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

Aside from the Directors and Executive Officers enumerated above, there are no other employees expected to hold significant executive/officer position in the Company.

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

Henry Sy, Sr.

Name of Corporation	***Position***
SM Investments Corporation.	Chairman
Highlands Prime, Inc..	Chairman
SM Development Corporation	Chairman
China Banking Corporation..	Honorary Chairman
BDO Unibank, Inc...	Chairman Emeritus

Jose L. Cuisia, Jr.

Name of Corporation	***Position***
The Philippine American Life & General Insurance Company (Philamlife)...	Vice Chairman
The Covenant Car Company, Inc.	Chairman
BPI-Philam Assurance Co. (BPLAC).	Regular Director
PHINMA Corporation...	Regular Director
Holcim Philippines, Inc...	Regular Director
Manila Water Company, Inc..	Independent Director
ICCP Holdings...	Regular Director
Beacon Property Ventures...	Regular Director

Gregorio U. Kilayko

Name of Corporation	***Position***
Highlands Prime, Inc...	Independent Director
Belle Corporation..	Independent Director
Philequity...	Independent Director

Joselito H. Sibayan

Name of Corporation	***Position***
Philippine Postal Savings Bank......................................	Regular Director

Hans T. Sy

Name of Corporation	***Position***
China Banking Corporation	Director/ Chairman of the Board and of Executive Committee
Highlands Prime, Inc..	Director
SM Investments Corporation.	Adviser to the Board

Henry T. Sy, Jr.

Name of Corporation	***Position***
SM Development Corporation	Vice Chairman/ Chief Executive Officer
Highlands Prime, Inc...	Vice Chairman / President
SM Investments Corporation	Vice Chairman
The National Grid Corporation of the Philippines....	President
Pico de Loro Beach and Country Club Inc....	Chairman
BDO Unibank, Inc...	Director

Herbert T. Sy

Name of Corporation	***Position***
China Banking Corporation	Director
SM Investments Corporation	Adviser to the Board

Teresita T. Sy

Name of Corporation	***Position***
BDO Unibank, Inc.	Chairperson
SM Investments Corporation.	Director/ Vice Chairperson

Elizabeth T. Sy

Name of Corporation	***Position***
Pico de Loro Beach and Country Club Inc...	Co-Chairman
SM Development Corporation	Director
SM Investments Corporation...	Adviser to the Board

<u>Involvement in Legal Proceedings</u>

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director or any member of senior management of the Company:

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

The members of the Audit and Risk Management Committee are:

JOSE L. CUISIA, JR.	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSELITO H. SIBAYAN	-	Member (Independent Director)
JORGE T. MENDIOLA	-	Member
JOSE T. SIO	-	Member
SERAFIN U. SALVADOR	-	Member
CORAZON I. MORANDO	-	Member

The members of the Compensation Committee are:

HANS T. SY	-	Chairman
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSELITO H. SIBAYAN	-	Member (Independent Director)

The members of the Nomination Committee are:

HERBERT T. SY	-	Chairman
JOSE L. CUISIA, JR.	-	Member (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)

The Nomination Committee created by the Board under its Corporate Governance Manual nominated the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Henry Sy, Sr.	-	Chairman Emeritus
Henry T. Sy, Jr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman (Independent Director)
Gregorio U. Kilayko	-	Independent Director
Joselito H. Sibayan	-	Independent Director
Hans T. Sy	-	Director
Herbert T. Sy	-	Director
Jorge T. Mendiola	-	Director

Mr. Jeffrey C. Lim nominated to the Board for inclusion in the Final List of Candidates for Independent Directors the following stockholders:

Jose L. Cuisia, Jr.
Gregorio U. Kilayko
Joselito H. Sibayan

Mr. Jeffrey C. Lim is not related to Jose L. Cuisia, Gregorio U. Kilayko and Joselito H. Sibayan.

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

The following will be nominated as officers at the Organizational meeting of the Board of Directors:

Henry Sy, Sr.	-	Chairman Emeritus
Henry T. Sy, Jr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman
Hans T. Sy	-	President
Jeffrey C. Lim	-	Executive Vice President

Corazon I. Morando	-	Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary
Ronald G. Tumao	-	Vice President – Market Research and Planning
Kelsey Hartigan Y. Go	-	Vice President – Information Technology
Diane R. Dionisio	-	Vice President – Finance (China Projects)
Teresa Cecilia H. Reyes	-	Vice President – Finance
Edgar Ryan C. San Juan	-	Vice President – Legal
Davee M. Zuniga	-	Vice President – Internal Audit
Emmanuel C. Paras	-	Corporate Secretary/ Asst. Compliance Officer

Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita Sy, Elizabeth Sy, Henry Sy, Jr., Hans Sy, Herbert Sy and Harley Sy. All other directors and officers are not related either by consanguinity or affinity.

ITEM 10. Executive Compensation

Aside from regular standard per diems, all directors do not receive regular annual salaries from the Company. The following are the five most highly compensated executive officers:

Name and Position

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice-President

Kelsey Hartigan Y. Go
VP – Information Technology

Diana R. Dionisio
VP – Finance (China Projects)

Teresa Cecilia H. Reyes
VP – Finance

Summary Compensation Table

	Year	Salary	Bonus
President & Most Highly Compensated Executive Officers	2014 (estimate)	₱32,000,000	₱6,000,000
	2013 (actual)	29,000,000	6,000,000
	2012 (actual)	28,000,000	5,000,000
All other officers* as a group unnamed	2014 (estimate)	₱78,000,000	₱28,000,000
	2013 (actual)	71,000,000	28,000,000
	2012 (actual)	51,000,000	21,000,000

**Managers & up*

Certain officers of the Company are seconded from SM Investments Corporation.

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

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of February 28, 2014, the following are the owners of SMPH's common stock in excess of 5% of total outstanding shares:

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**SM Investments Corporation (SMIC)** ***(Parent Company)***[1] One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SMIC**[2]	Filipino	14,197,128,987 (b)	51.03
-do-	**PCD Nominee Corp.** [3] MSE Bldg., Ayala Ave., Makati City	**PCD Participants** [4]	Filipino - 6.83% Non Filipino - 14.98%	6,067,667,256 (r)	21.81

[1.] The following are the individuals holding the direct beneficial ownership of SMIC: Felicidad T. Sy-5.12%, Henry T. Sy, Jr.-7.34%, Hans T. Sy-8.28%, Herbert T. Sy-8.28%, Harley T. Sy-7.35%, Teresita T. Sy-7.17% and Elizabeth T. Sy-5.87%.
[2.] Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC.
[3.] The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.
[4] The PCD is not related to the Company.

(2) Security Ownership of Management as of February 28, 2014

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship Filipino(F)	Amount and Nature of Beneficial Ownership (D) Direct (I) Indirect	Class of Securities Voting(V)	Percent of Class
Common	Henry Sy, Sr.	F	893,395,579 (D&I)	V	3.21
-do-	Jose L. Cuisia, Jr.	F	497,661 (D&I)	V	0.00
-do-	Teresita T. Sy	F	666,708,532 (D&I)	V	2.40
-do-	Henry T. Sy, Jr.	F	680,198,440 (D)	V	2.45
-do-	Hans T. Sy	F	685,161,635 (D&I)	V	2.46
-do-	Herbert T. Sy	F	666,389,522 (D&I)	V	2.40
-do-	Elizabeth T. Sy	F	654,115,892 (D&I)	V	2.35
-do-	Gregorio U. Kilayko	F	202,580 (D&I)	V	0.00
-do-	Joselito H. Sibayan	F	1,875 (D)	V	0.00
-do-	Jorge T. Mendiola	F	1,365,167 (D&I)	V	0.00
-do-	Jeffrey C. Lim	F	50,000 (D)	V	0.00
	All directors and executive officers as a group		4,248,086,883		15.27

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

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

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

ITEM 12. Certain Relationships and Related Transactions

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks.

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or will be involved or had or will have a direct or indirect material interest.

Please refer to Note 22 of the attached consolidated financial statements.

PART V- EXHIBITS AND SCHEDULES

ITEM 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - See accompanying Index to Exhibits

(b) Reports on SEC Form 17-C

Reports on Form 17-C (Current Report) have been filed during 2013.

INDEX TO EXHIBITS

Form 17-A

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

SM PRIME HOLDINGS, INC.
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, ITEM 7

Consolidated Financial Statements **Page No.**

Supplementary Schedules

Annex 68 - E

Additional Components

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* These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Jose L. Cuisia, Jr.
Vice Chairman

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice President / Chief Finance Officer

Signed this 24th of February, 2014

SUBSCRIBED AND SWORN to before me this APR 07 2014 at Makati City, affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
JOSE L. CUISIA, JR.	DP0007838	March 9, 2011	Manila
HANS T. SY	EB4448660	January 14, 2012	Manila
JEFFREY C. LIM	EB6135323	August 15, 2012	Manila

DOC NO. 499
PAGE NO. 101
BOOK NO. 322
SERIES OF 2014

EMMANUEL C. PARAS
NOTARY PUBLIC
★ ROLL NO. 27192 ★
MAKATI CITY, PHILIPPINES

Emmanuel C. Paras

EMMANUEL C. PARAS
Notary Public for Makati City
Appointment No. M-257 until Dec. 31 2014
Roll of Attorney No. 27192
PTR No. 4230541MC, 01/03/14, Makati City
IBP No. 946065; 01/03/14; Makati Chapter
SyCipLaw Center 105 Paseo de Roxas
Makati City, 1226 Metro Manila
Philippines

SECRETARY'S CERTIFICATE

KNOW ALL MEN BY THESE PRESENTS:

I, **EMMANUEL C. PARAS,** Filipino, of legal age, as the duly elected Corporate Secretary of **SM PRIME HOLDINGS, INC**. (the 'Corporation') a corporation duly organized and existing under the laws of the Philippines, with office at Mall of Asia Arena Building, Coral Way cor. J.W. Diokno Blvd. Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, do hereby certify that at the regular meeting of the Board of Directors of the Corporation held on February 24, 2014 at which meeting a quorum was present, the following resolution was approved and adopted:

> "**RESOLVED**, that the Board of Directors of **SM PRIME HOLDINGS, INC.** (the "Corporation") authorize, as it hereby authorizes, the Vice-Chairman, Mr. Jose L. Cuisia, Jr., to sign, execute and deliver, on behalf of the Corporation, the Statement of Management Responsibility of the Corporation in lieu of the Chairman, Mr. Henry Sy, Sr." MAR 13 2014

IN WITNESS WHEREOF, I have hereunto set my hands this ___th day of March 2014.

Emmanuel C. Paras

EMMANUEL C. PARAS
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

Before me, a notary public in and for the city named above, personally appeared Mr. Emmanuel C. Paras with Passport No. XX4824591 issued on October 23, 2009 at Manila, who is personally known to me to be the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument. MAR 13 2014

Witness my hand and seal this ___th day of March 2014.

Doc. No. 265;
Page No. 54;
Book No. 1;
Series of 2014

DIANA S. GERVACIO
NOTARY PUBLIC
ROLL NO. 62479
MAKATI CITY, PHILIPPINES

Diana Gervacio

DIANA S. GERVACIO
Notary Public for Makati City
Appointment No. M-... until Dec. 31 2014
Roll of Attorney No. 62479
PTR No. 423... ; Makati City
IBP No. 946... , Makati Chapter
SyCipLaw Center ... Paseo de Roxas
Makati City, 1226 Metro Manila
Philippines

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting and financial reporting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4225152, January 2, 2014, Makati City

February 24, 2014

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31, 2013	December 31, 2012 (As restated - Notes 2 and 6)	January 1, 2012 (As restated - Notes 2 and 6)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 7, 22, 28 and 29)	**₱27,141,506**	₱21,299,366	₱17,345,309
Short-term investments (Notes 8, 22, 28 and 29)	**887,900**	821,000	876,800
Investments held for trading (Notes 9, 22, 28 and 29)	**1,151,464**	1,338,777	1,196,956
Receivables (Notes 10, 17, 22, 28 and 29)	**27,184,434**	17,145,695	11,622,830
Condominium and residential units for sale (Note 11)	**6,102,653**	2,969,757	945,363
Land and development - current portion (Note 12)	**13,281,246**	11,673,553	5,780,360
Available-for-sale investments (Notes 13, 22, 28 and 29)	**–**	1,000,000	1,000,000
Prepaid expenses and other current assets (Notes 14, 22, 28 and 29)	**9,936,120**	12,014,185	11,394,881
Total Current Assets	**85,685,323**	68,262,333	50,162,499
Noncurrent Assets			
Available-for-sale investments - net of current portion (Notes 13, 22, 28 and 29)	**23,369,074**	23,303,128	16,052,509
Property and equipment - net (Note 15)	**1,578,893**	1,597,066	1,180,653
Investment properties - net (Notes 16, 20 and 22)	**171,666,409**	147,854,289	129,972,301
Land and development - net of current portion (Note 12)	**21,539,938**	20,606,270	17,862,368
Derivative assets (Notes 28 and 29)	**1,778,810**	109,979	115,619
Deferred tax assets - net (Note 26)	**690,525**	486,314	395,548
Other noncurrent assets (Notes 17, 22, 25, 28 and 29)	**29,274,710**	22,432,737	13,121,593
Total Noncurrent Assets	**249,898,359**	216,389,783	178,700,591
	₱335,583,682	₱284,652,116	₱228,863,090
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable (Notes 18, 22, 28 and 29)	**₱3,250,000**	₱8,973,500	₱2,387,000
Accounts payable and other current liabilities (Notes 19, 22, 28 and 29)	**45,298,216**	34,399,069	28,528,058
Current portion of long-term debt (Notes 20, 22, 28 and 29)	**7,387,260**	3,856,767	1,162,420
Income tax payable	**946,593**	662,805	627,064
Total Current Liabilities	**56,882,069**	47,892,141	32,704,542
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 20, 22, 28 and 29)	**95,675,730**	67,749,383	52,382,248
Tenants' deposits (Notes 27, 28 and 29)	**10,248,792**	8,968,623	7,984,377
Liability for purchased land - net of current portion (Notes 19, 28 and 29)	**1,117,809**	4,202,128	1,682,368
Deferred tax liabilities - net (Note 26)	**2,022,539**	2,014,230	1,770,620
Derivative liabilities (Notes 28 and 29)	**159,974**	244,330	237,980
Other noncurrent liabilities (Notes 16, 22, 25, 28 and 29)	**3,255,244**	3,119,296	3,039,795
Total Noncurrent Liabilities	**112,480,088**	86,297,990	67,097,388
Total Liabilities (Carried Forward)	**169,362,157**	134,190,131	99,801,930

	December 31, 2013	December 31, 2012 (As restated - Note 2 and 6)	January 1, 2012 (As restated - Note 2 and 6)
Total Liabilities (Brought Forward)	**₱169,362,157**	₱134,190,131	₱99,801,930
Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)			
Capital stock (Notes 6, 21 and 30)	**33,166,300**	33,166,300	29,691,565
Additional paid-in capital - net (Notes 6 and 21)	**22,303,436**	19,668,994	17,732,721
Cumulative translation adjustment	**1,381,268**	607,237	897,925
Net unrealized gain on available-for-sale investments (Note 13)	**19,958,330**	19,781,021	13,323,397
Net fair value changes on cash flow hedges (Note 29)	**429,149**	–	–
Remeasurement loss on defined benefit obligation (Note 25)	**771**	(61,088)	(28,000)
Retained earnings (Note 21):			
Appropriated	**42,200,000**	42,200,000	23,200,000
Unappropriated	**47,807,664**	36,250,679	45,825,366
Treasury stock (Notes 21 and 30)	**(3,980,378)**	(3,985,462)	(3,985,462)
Total Equity Attributable to Equity Holders of the Parent	**163,266,540**	147,627,681	126,657,512
Non-controlling Interests (Note 21)	**2,954,985**	2,834,304	2,403,648
Total Equity	**166,221,525**	150,461,985	129,061,160
	₱335,583,682	₱284,652,116	₱228,863,090

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As restated - Notes 2 and 6)	2011 (As restated - Notes 2 and 6)
REVENUE			
Rent (Notes 22 and 27)	**₱32,195,285**	₱28,951,727	₱25,208,474
Sales:			
Real estate	**20,775,195**	22,575,692	17,359,748
Cinema ticket	**3,740,030**	3,477,262	3,051,717
Others (Note 22)	**3,083,900**	2,210,413	4,449,304
	59,794,410	57,215,094	50,069,243
COSTS AND EXPENSES (Note 23)	**35,658,865**	35,145,277	30,771,982
INCOME FROM OPERATIONS	**24,135,545**	22,069,817	19,297,261
OTHER INCOME (CHARGES)			
Interest expense (Notes 22, 24, 28 and 29)	**(3,686,603)**	(3,064,825)	(2,933,337)
Interest and dividend income (Notes 13, 22 and 24)	**1,093,870**	1,062,028	1,180,382
Restructuring costs (Note 6)	**(1,276,629)**	–	–
Others - net (Notes 9, 12, 13, 17, 20, 22 and 29)	**443,908**	366,874	(501,464)
	(3,425,454)	(1,635,923)	(2,254,419)
INCOME BEFORE INCOME TAX	**20,710,091**	20,433,894	17,042,842
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**4,392,114**	3,687,530	3,111,294
Deferred	**(407,951)**	102,931	(70,585)
	3,984,163	3,790,461	3,040,709
NET INCOME	**₱16,725,928**	₱16,643,433	₱14,002,133
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱16,274,820**	₱16,202,777	₱13,628,870
Non-controlling interests (Note 21)	**451,108**	440,656	373,263
	₱16,725,928	₱16,643,433	₱14,002,133
Basic/Diluted earnings per share (Note 30)	**0.586**	0.584	0.491

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As restated - Notes 2 and 6)	2011 (As restated - Notes 2 and 6)
NET INCOME	**₱16,725,928**	₱16,643,433	₱14,002,133
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized gain due to changes in fair value in available-for-sale investments (Note 13)	**177,309**	6,457,624	525,634
Net fair value changes on cash flow hedges (Note 29)	**429,149**	–	–
Cumulative translation adjustment	**774,031**	(290,688)	308,225
	1,380,489	6,166,936	833,859
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods - Remeasurement income (loss) on defined benefit obligation (Note 25)	**61,192**	(33,088)	(28,000)
TOTAL COMPREHENSIVE INCOME	**₱18,167,609**	₱22,777,281	₱14,807,992
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱17,717,168**	₱22,336,625	₱14,434,729
Non-controlling interests (Note 21)	**450,441**	440,656	373,263
	₱18,167,609	₱22,777,281	₱14,807,992

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)											
	Capital Stock (Notes 6, 21 and 30)	**Additional Paid-in Capital - Net** (Notes 6 and 21)	**Cumulative Translation Adjustment**	**Net Unrealized Gain on Available-for-Sale Investments** (Note 13)	**Remeasurement Loss on Defined Benefit Obligation** (Note 25)	**Net Fair Value Changes on Cash Flow Hedges** (Note 29)	**Retained Earnings** (Note 21) **Appropriated**	**Unappropriated**	**Treasury Stock** (Notes 21 and 30)	**Total**	**Non-controlling Interests** (Note 21)	**Total Equity**
At January 1, 2013, as previously reported	**₱17,392,535**	**₱8,219,067**	**₱544,146**	**₱–**	**₱–**	**₱–**	**₱27,000,000**	**₱16,890,137**	**(₱101,475)**	**₱69,944,410**	**₱955,336**	**₱70,899,746**
Effect of adoption of revised PAS 19 (Note 2)	**–**	**–**	**–**	**–**	**(61,088)**	**–**	**–**	**1,039**	**–**	**(60,049)**	**–**	**(60,049)**
Effect of common control business combination (Note 6)	**15,773,765**	**11,449,927**	**63,091**	**19,781,021**	**–**	**–**	**15,200,000**	**19,359,503**	**(3,883,987)**	**77,743,320**	**1,878,968**	**79,622,288**
At Janauy 1, 2013, as restated	**33,166,300**	**19,668,994**	**607,237**	**19,781,021**	**(61,088)**	**–**	**42,200,000**	**36,250,679**	**(3,985,462)**	**147,627,681**	**2,834,304**	**150,461,985**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,274,820**	**–**	**16,274,820**	**451,108**	**16,725,928**
Other comprehensive income (loss)	**–**	**–**	**774,031**	**177,309**	**61,859**	**429,149**	**–**	**–**	**–**	**1,442,348**	**(667)**	**1,441,681**
Total comprehensive income for the year	**–**	**–**	**774,031**	**177,309**	**61,859**	**429,149**	**–**	**16,274,820**	**–**	**17,717,168**	**450,441**	**18,167,609**
Equity adjustment from common control business combination (Note 6)	**–**	**2,480,478**	**–**	**–**	**–**	**–**	**–**	**(26,942)**	**–**	**2,453,536**	**–**	**2,453,536**
Cash dividends (Note 21)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,690,893)**	**–**	**(4,690,893)**	**–**	**(4,690,893)**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(329,760)**	**(329,760)**
Acquisition of non-controlling interests	**–**	**153,964**	**–**	**–**	**–**	**–**	**–**	**–**	**5,084**	**159,048**	**–**	**159,048**
At December 31, 2013	**₱33,166,300**	**₱22,303,436**	**₱1,381,268**	**₱19,958,330**	**₱771**	**₱429,149**	**₱42,200,000**	**₱47,807,664**	**(₱3,980,378)**	**₱163,266,540**	**₱2,954,985**	**₱166,221,525**
At January 1, 2012, as previously reported	₱13,917,800	₱8,219,067	₱872,659	₱–	₱–	₱–	₱7,000,000	₱33,865,610	(₱101,475)	₱63,773,661	₱573,144	₱64,346,805
Effect of adoption of revised PAS 19 (Note 2)	–	–	–	–	(28,000)	–	–	(896)	–	(28,896)	–	(28,896)
Effect of common control business combination (Note 6)	15,773,765	9,513,654	25,266	13,323,397	–	–	16,200,000	11,960,652	(3,883,987)	62,912,747	1,830,504	64,743,251
At Janauy 1, 2012, as restated	29,691,565	17,732,721	897,925	13,323,397	(28,000)	–	23,200,000	45,825,366	(3,985,462)	126,657,512	2,403,648	129,061,160
Net income for the year	–	–	–	–	–	–	–	16,202,777	–	16,202,777	440,656	16,643,433
Other comprehensive income (loss)	–	–	(290,688)	6,457,624	(33,088)	–	–	–	–	6,133,848	–	6,133,848
Total comprehensive income for the year	–	–	(290,688)	6,457,624	(33,088)	–	–	16,202,777	–	22,336,625	440,656	22,777,281
Equity adjustment from common control business combination (Note 6)	–	1,936,273	–	–	–	–	–	727,966	–	2,664,239	–	2,664,239
Cash dividends (Note 21)	–	–	–	–	–	–	–	(4,030,695)	–	(4,030,695)	–	(4,030,695)
Stock dividends (Note 21)	3,474,735	–	–	–	–	–	–	(3,474,735)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(10,000)	(10,000)
Appropriation during the year - net of reversal	–	–	–	–	–	–	19,000,000	(19,000,000)	–	–	–	–
At December 31, 2012	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021	(₱61,088)	₱–	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985

	Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)											
	Capital Stock (Notes 6, 21 and 30)	Additional Paid-in Capital - Net (Notes 6 and 21)	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments (Note 13)	Remeasurement Loss on Defined Benefit Obligation (Note 25)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Unappropriated	Treasury Stock (Notes 21 and 30)	Total	Non-controlling Interests (Note 21)	Total Equity
At Januay 1, 2011, as previously reported	₱13,917,800	₱8,219,067	₱589,700	₱3,745	₱–	₱–	₱7,000,000	₱28,562,329	(₱101,475)	₱58,191,166	₱758,715	₱58,949,881
Effect of adoption of revised PAS 19	–	–	–	–	–	–	–	(11,738)	–	(11,738)	–	(11,738)
Effect of common control business combination (Note 6)	15,773,765	1,375,390	–	12,794,018	–	–	11,200,000	13,357,466	(3,883,987)	50,616,652	1,783,466	52,400,118
Balance at Januay 1, 2011, as restated	29,691,565	9,594,457	589,700	12,797,763	–	–	18,200,000	41,908,057	(3,985,462)	108,796,080	2,542,181	111,338,261
Net income for the year	–	–	–	–	–	–	–	13,628,870	–	13,628,870	373,263	14,002,133
Other comprehensive income (loss)	–	–	308,225	525,634	(28,000)	–	–	–	–	805,859		805,859
Total comprehensive income for the year	–	–	308,225	525,634	(28,000)	–	–	13,628,870	–	14,434,729	373,263	14,807,992
Equity adjustment from business combination under common control (Note 6)	–	8,138,264	–	–	–	–	–	(958,846)	–	7,179,418	–	7,179,418
Cash dividends (Note 21)	–	–	–	–	–	–	–	(3,752,715)	–	(3,752,715)	–	(3,752,715)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(511,796)	(511,796)
Appropriation during the year	–	–	–	–	–	–	5,000,000	(5,000,000)	–	–	–	–
At December 31, 2011	₱29,691,565	₱17,732,721	₱897,925	₱13,323,397	(₱28,000)	₱–	₱23,200,000	₱45,825,366	(₱3,985,462)	₱126,657,512	₱2,403,648	₱129,061,160

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2013	2012 (As restated - Notes 2 and 6)	2011 (As restated - Notes 2 and 6)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱20,710,091**	₱20,433,894	₱17,042,842
Adjustments for:			
Interest expense (Note 24)	**3,686,603**	3,064,825	2,933,337
Interest income and dividend income (Notes 13 and 24)	**(1,093,870)**	(1,062,028)	(1,180,382)
Depreciation and amortization (Note 23)	**5,980,940**	5,126,801	4,823,506
Restructuring costs	**1,276,629**	–	–
Loss (gain) on:			
Sale of available-for-sale investments	**(285,129)**	(158,444)	(103,400)
Fair value changes on derivatives - net	**(62,717)**	16,278	226,901
Fair value changes on investment held-for-trading (Note 9)	**(93,996)**	(194,768)	(16,773)
Sale/retirement of investment properties and property and equipment	**(68,579)**	(253,590)	(4,863)
Unrealized foreign exchange loss (gain) - net	**(29,994)**	(107,495)	72,888
Operating income before working capital changes	**30,019,978**	26,865,473	23,794,056
Decrease (increase) in:			
Receivables	**(8,470,424)**	(10,377,471)	(5,726,200)
Condominium and residential units for sale	**4,196,726**	618,220	254,050
Land and development	**(11,109,456)**	(11,281,180)	(3,231,368)
Prepaid expenses and other current assets	**2,722,125**	(3,079,072)	(2,984,535)
Increase in:			
Accounts payable and other current liabilities	**9,478,924**	3,909,461	1,789,208
Tenants deposits	**1,192,142**	3,577,509	715,284
Cash generated from operations	**28,030,015**	10,232,940	14,610,495
Income tax paid	**(4,116,235)**	(3,599,308)	(2,848,493)
Interest paid	**(95,258)**	(45,936)	(138,369)
Cash provided by operating activities	**23,818,522**	6,587,696	11,623,633
CASH FLOWS FROM INVESTING ACTIVITIES			
Deductions (additions) to:			
Investment properties	**(24,553,198)**	(22,413,476)	(18,171,149)
Available-for-sale investments	**(2,396)**	(914,339)	(335,076)
Property and equipment	**(440,890)**	(580,236)	(220,614)
Investments held for trading	**–**	–	(299,380)
Proceeds from early redemption of available-for-sale investments	**1,000,000**	–	–
Proceeds from sale of:			
Held-for-trading investments	**300,448**	38,508	–
Investment properties	**99,991**	1,124,850	9,680
Available-for-sale-investments	**397,977**	282,420	210,400
Interest received	**692,313**	738,434	818,368
Dividends received	**354,602**	1,795,812	1,721,439
Investment in a joint venture and acquisition of a subsidiary - net of cash acquired (Notes 6 and 17)	**(7,352,729)**	–	–
Decrease (increase) in other noncurrent assets	**(1,211,579)**	(599,679)	752,515
Net cash used in investing activities	**(30,715,461)**	(20,527,706)	(15,513,817)

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Notes 2 and 6)	2011 (As restated - Notes 2 and 6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**₱76,494,060**	₱38,797,456	₱17,786,082
Payments of:			
Long-term debt	**(20,812,576)**	(13,123,309)	(14,142,267)
Dividends	**(5,020,653)**	(5,012,766)	(5,204,471)
Interest	**(4,111,850)**	(3,006,566)	(3,253,616)
Bank loans	**(33,210,179)**	(1,200)	(691,667)
Proceeds from issuance of common and treasury shares	**–**	400,000	69,347
Proceeds from unwinding of derivatives	**(22,071)**	–	–
Payments of restructuring costs	**(607,172)**	–	–
Decrease (increase) in non-controlling interests	**(667)**	(146,730)	1,779,740
Deposit for future subscription and others	**–**	187	498,129
Net cash provided by (used in) financing activities	**12,708,892**	17,907,072	(3,158,723)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**30,187**	(13,005)	60,652
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,842,140**	3,954,057	(6,988,255)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**21,299,366**	17,345,309	24,333,564
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱27,141,506**	₱21,299,366	₱17,345,309

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information and Corporate Restructuring**

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

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

As at December 31, 2013, SMPH is 51.04% and 26.13% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

Corporate Restructuring

In 2013, SMPH initiated a corporate restructuring exercise to consolidate all of the SM Group's real estate companies and real estate assets under one single listed entity which is SMPH (collectively, the "SM Property Group"). The overall objective is to bring to the equities market the most comprehensive and integrated Philippine property company that will engage the investor community in the long-term growth potential not just of the Philippine property sector, but also of the consumer and tourism sectors. This will leverage on SM's strong brand franchise, group synergies, dominant position in mall and residential development, extensive marketing and supplier network, huge landbank and other resources to strongly enhance the overall value of the company and all its future projects, which also include township and mixed-use development, commercial and resorts development, and hotels and convention centers. The corporate restructuring involves the following transactions:

- SM Land, Inc.'s (SM Land) tender offers for SM Development Corporation (SMDC) and Highlands Prime, Inc. (HPI);
- Merger of SMPH (the "Surviving entity") and SM Land (the "Absorbed entity"); and
- Acquisition of unlisted real estate companies and real estate assets from SMIC and the Sy Family.

The corporate restructuring was approved by the Board of Directors (BOD) of SMPH on May 31, 2013 and ratified by the stockholders in a special stockholders meeting held on July 10, 2013. This was subsequently approved by the SEC on October 10, 2013 (see Note 6).

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on February 24, 2014.

2. Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) investments which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS and PAS which the Company has adopted starting January 1, 2013:

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)*, became effective for annual periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits (Revised)*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, became effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, became effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretations Committee Q&A No. 2013-03, *Accounting for Employee Benefits under a Defined Contribution Plan Subject to Requirements of Republic Act 7641, The Philippine Retirement Law,* became effective for annual periods beginning on or after January 1, 2013.

- 2012 improvements to PFRSs, effective 2013.

The standards that have been adopted are deemed to have no material impact on the consolidated financial statements of the Company except for the adoption of the Revised PAS 19.

Adoption of Revised PAS 19

For defined benefit plans, the Revised PAS 19 requires all remeasurements (including actuarial gains and losses) to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested.

Upon adoption of the Revised PAS 19, the Company changed its accounting policy to recognize all remeasurements in other comprehensive income, which will not be reclassified to profit or loss in subsequent periods, and all past service costs in profit or loss in the period they occur. Moving forward, the Company will retain the remeasurements in other comprehensive income and will not transfer this to other items of equity.

Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption of the Revised PAS 19 on the consolidated financial statements are as follows:

	As at December 31, 2012	As at January 1, 2012
	(In Thousands)	
Increase (decrease) in consolidated balance sheets:		
Pension liability	₱49,166	₱30,939
Pension asset	(15,546)	(3,933)
Deferred tax asset	–	4,795
Deferred tax liability	(4,664)	(1,180)
Other comprehensive income, net of tax	(61,088)	(28,000)
Retained earnings	1,040	(896)

	For the Years Ended December 31	
	2012	2011
	(In Thousands)	
Increase (decrease) in consolidated statements of income:		
Pension cost	₱2,766	₱12,284
Income before income tax	2,766	12,284
Benefit from income tax	(830)	(1,442)
Net income attributable to equity holders of the parent	₱1,936	₱10,842
Increase (decrease) in consolidated statements of comprehensive income:		
Remeasurement loss on defined benefit obligation	₱33,569	₱30,868
Income tax effects	(481)	(2,868)
Other comprehensive loss, net of tax	₱33,088	₱28,000
Total comprehensive loss attributable to equity holders of the parent	₱33,088	₱28,000

Future Changes in Accounting Policies

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

- PFRS 9, *Financial Instruments*, currently has no mandatory effective date and may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- PFRS 10, PFRS 12 and PAS 27 - *Investment Entities (Amendments)*, will become effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company since none of the entities in the Company would qualify to be an investment entity under PFRS 10.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, will become effective for annual periods beginning on or after July 1, 2014. The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied. The amendments will have no significant impact on the Company's consolidated financial statements.

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

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*, will become effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*, will become effective for annual periods beginning on or after January 1, 2014. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- Philippine Interpretation IFRIC 15*, Agreements for the Construction of Real Estate,* covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of this interpretation will result to a change in the revenue and cost recognition from percentage of completion method to completed contract method. The Company has made an assessment and is continuously monitoring the impact of this new interpretation to its consolidated financial statements.

- Philippine Interpretation IFRIC 21, *Levies*, is effective for annual periods beginning on or after January 1, 2014. This clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Company does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

Improvements to PFRSs (2010–2012 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after January 1, 2014 and are applied prospectively:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be applied prospectively. This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be applied prospectively. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments shall be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments shall be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Improvements to PFRSs (2011–2013 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after January 1, 2014 and are applied prospectively:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Company's financial position or performance.

- PAS 40, *Investment Property*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment has no significant impact on the Company's financial position or performance.

Basis of Consolidation

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

Company	Country of Incorporation	Percentage of Ownership 2013	2012
First Asia Realty Development Corporation (FARDC)	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp.	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
SMDC and Subsidiaries[(a)]	- do -	**100.0**	100.0
Magenta Legacy, Inc.[(a)]	- do -	**100.0**	100.0
Associated Development Corporation[(a)]	- do -	**100.0**	100.0
HPI[(a)]	- do -	**100.0**	100.0
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)[(a)]	- do -	**100.0**	100.0
SM Arena Complex Corporation (SMACC)[(a)]	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiaries (Costa)[(a)]	- do -	**100.0**	100.0
Prime Metro Estate, Inc. (PMI)[(a)]	- do -	**60.0**	60.0
Tagaytay Resorts and Development Corporation (TRDC)[(a)]	- do -	**100.0**	100.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)[(b)]	- do -	**100.0**	100.0
Summerhills Home Development Corp. (SHDC)[(c)]	- do -	**100.0**	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	**100.0**	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries[(c)]	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0

a. Acquired in 2013 as part of SM Property Group corporate restructuring accounted for as common control business combination using pooling of interest method.
b. Acquired in 2013 from unrelated parties accounted for under acquisition method.
c. Acquired in 2013 accounted for as common control business combination using pooling of interest method.

The consolidated financial statements also include the historical financial information of the real estate assets accounted for as "business" acquired from SMIC.

Properties	Classification	Location
Taal Vista Hotel	Land and building	Tagaytay
Radisson Cebu Hotel	Building	Cebu
Pico Sands Hotel	Building	Batangas
SMX Convention Center	Building	Pasay
Mall of Asia Arena	Building	Pasay
Mall of Asia Arena Annex	Building	Pasay
Corporate Office	Building	Pasay
Casino and Waste Water Treatment Plant	Building	Tagaytay
Tagaytay land	Land	Tagaytay
EDSA West land	Land	Quezon City
Park Inn Davao	Building	Davao

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

The individual financial statements of the Parent Company and its subsidiaries, which were prepared for the same reporting period using their own set of accounting policies, are adjusted to the accounting policies of the Company when consolidated financial statements are prepared. All intracompany balances, transactions, income and expenses, and profits and losses resulting from intracompany transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and when the Company has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

Revenue from real estate sales amounted to ₱20,775 million, ₱22,576 million and ₱17,360 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Property Acquisition and Business Combination. The Company acquires subsidiaries which own real estate. At the time of acquisition, the Company considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Company accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property.

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

Classification of Property. The Company determines whether a property is classified as investment property or land and development.

Investment property comprises building spaces and improvements which are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

Inventory comprises property that is held for sale in the ordinary course of business in which the Company develops and intends to sell on or before completion of construction.

Distinction between Land and Development, Investment Properties and Property and Equipment. The Company determines whether a property qualifies as land and development. In making this judgment, the Company considers whether the property will be sold in the ordinary course of business or is part of its strategic landbanking activities which will be developed for sale as condominium residential projects. For investment properties, the Company considers whether the property generates cash flows largely independent of the other assets and is held primarily to earn rentals or capital appreciation. Property and equipment is held for use in the supply of goods or services or for administrative purposes.

The Company considers each property separately in making its judgment.

The aggregate carrying values of land and development, investment properties and property and equipment amounted to ₱208,066 million and ₱181,731 million as at December 31, 2013 and 2012, respectively (see Notes 12, 15 and 16).

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

Rent income amounted to ₱32,195 million, ₱28,952 million and ₱25,208 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 27).

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

Rent expense amounted to ₱1,295 million, ₱926 million and ₱800 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 27).

Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value. The Company determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Company determines that a decline in fair value of greater than 20% below cost is considered to be a significant decline and a decline for a period longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

There was no impairment loss recognized on AFS investments for the years ended December 31, 2013, 2012 and 2011. The carrying values of AFS investments amounted to ₱23,369 million and ₱24,303 million as at December 31, 2013 and 2012, respectively (see Note 13).

Estimates and Assumptions

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

Revenue and Cost Recognition. The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from sale of real estate amounted to ₱20,775 million, ₱22,576 million and ₱17,360 million for the years ended December 31, 2013, 2012, and 2011, respectively, while cost of real estate sold amounted to ₱11,921 million, ₱13,976 million and ₱10,303 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 23).

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

Allowance for impairment losses amounted to ₱323 million and ₱188 million as at December 31, 2013 and 2012, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱37,462 million and ₱32,335 million as at December 31, 2013 and 2012, respectively (see Notes 10 and 17).

Net Realizable Value of Condominium Units for Sale and Land and Development. The Company writes down the carrying value of condominium units held for sale and land and development cost when the net realizable value becomes lower than the carrying value due to changes in market prices or other causes. The net realizable value of properties under construction is assessed with reference to market price at the balance sheet date for similar completed property, less estimate cost to complete the construction and estimated cost to sell. The carrying value is reviewed regularly for any decline in value.

The carrying values of condominium units for sale and land and development amounted to ₱5,788 million and ₱34,821 million as at December 31, 2013, respectively, and ₱2,590 million and ₱32,280 million as at December 31, 2012, respectively (see Notes 11 and 12).

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

The carrying values of AFS investments amounted to ₱23,369 million and ₱24,303 million as at December 31, 2013 and 2012, respectively (see Note 13).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱173,245 million and ₱149,451 million as at December 31, 2013 and 2012, respectively (see Notes 15 and 16).

Impairment of Other Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. Determining the value of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance.

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱173,245 million and ₱149,451 million as at December 31, 2013 and 2012, respectively (see Notes 15 and 16).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Company's deferred tax assets was recognized.

Deferred tax assets recognized in the consolidated balance sheets amounted to ₱1,160 million and ₱538 million as at December 31, 2013 and 2012, respectively, while the unrecognized deferred tax assets amounted to ₱93 million and ₱121 million as at December 31, 2013 and 2012, respectively (see Note 26).

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

The fair value of financial assets and liabilities are discussed in Note 29.

Contingencies. The Company is currently involved in various legal and administrative proceedings. The estimate of the probable costs for the resolution of these proceedings has been developed in consultation with in-house as well as outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its consolidated financial position and performance. It is possible, however, that future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provisions were made in relation to these proceedings (see Note 31).

4. Summary of Significant Accounting and Financial Reporting Policies

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

Short-term Investments
Short-term investments are cash placements, shown under current assets, with original maturities of more than three months but less than one year.

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

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

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The Company recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as at the date of the event or change in circumstances that caused the transfer.

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱2,930 million and ₱1,449 million as at December 31, 2013 and 2012, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱160 million and ₱244 million as at December 31, 2013 and 2012, respectively (see Note 29).

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

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

Classified under this category are cash and cash equivalents, short-term investments, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under "Prepaid expenses and other current assets" account) and bonds and deposits (included under "Other noncurrent assets" account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱10,277 million and ₱15,189 million as at December 31, 2013 and 2012, respectively (see Note 29).

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

The Company has no financial assets under this category as at December 31, 2013 and 2012.

AFS Investments. AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within twelve months from reporting period and as noncurrent assets if expected date of disposal is more than twelve months from reporting period.

Classified under this category are the investments in corporate notes and quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱23,369 million and ₱24,303 million as at December 31, 2013 and 2012, respectively (see Note 29).

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱109,829 million and ₱83,592 million as at December 31, 2013 and 2012, respectively (see Note 29).

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

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

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

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

Debt Issue Costs
Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments
The Company uses various derivative financial instruments such as non-deliverable forwards, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 29). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated as accounting hedges.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated statements of income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges.

Cash Flow Hedges. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Net fair value changes on cash flow hedges" in the consolicated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of income under "Others - net" account (see Note 29).

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

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

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under "Others - net" account in the consolidated statements of income (see Note 29). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives. An embedded derivative is a component of a hybrid instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid instrument is not recognized at FVPL.

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheets.

Land and Development and Condominium Units for Sale
Land and development and condominium units for sale are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Land and development and condominium units for sale include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

- Land cost;

- Amounts paid to contractors for construction and development; and

- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Prepaid Expenses and Other Current Assets
Other current assets consist of advances to suppliers and contractors, input tax, creditable withholding taxes, deposits, cash in escrow, prepayments and others. Advances to contractors are carried at cost. These represent advance payments to contractors for the construction and development of the projects. These are recouped upon every progress billing payment depending on the percentage of accomplishment. Advances for project development represent advances made for the purchase of land and is stated initially at cost. Advances for project development are subsequently measured at cost, net of any impairment. Prepaid taxes and other prepayments are carried at cost less amortized portion. These include prepayments for taxes and licenses, rent, advertising and promotions and insurance. Deposits represent advances made for acquisitions of property for future development and of shares of stocks.

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

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises. Otherwise, the acquisition is accounted for as a business combination.

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Company will be identified as the acquirer, (b) determination of the acquisition-date, (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquire and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the costs and expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled and final difference is recognized within equity.

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Company at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Company determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

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

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

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

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

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

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

Common Control Business Combinations

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

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;

- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;

- No 'new' goodwill is recognized as a result of the business combination;

- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets; and

- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Acquisition of Non-controlling Interests

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

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

Land improvements	5 years
Buildings	10–25 years
Building and leasehold improvements	5–10 years or term of the lease, whichever is shorter
Data processing equipment	5–8 years
Transportation equipment	5–6 years
Furniture, fixtures and office equipment	5–10 years

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

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

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

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

Investment Properties
Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties, except land and construction in progress, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is

incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Property under construction or development for future use as an investment property is classified as investment property.

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

Land improvements	5 years
Land use rights	40–60 years
Buildings and improvements	20–35 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or terms of lease whichever is shorter

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

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

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

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

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

<u>Investments in Shares of Stocks of Associates and Joint Ventures</u>
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

The Company's investments in shares of stocks of associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in the net asset of the associate or joint venture. The consolidated statements of income reflects the share in the result of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profit and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate or joint venture. An investment in associate or joint venture is accounted for using the equity method from the date when it becomes an associate or joint venture. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follow:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Company's share in the associate's or joint venture's profits or losses.

- Any excess of the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share in the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PAS 39, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value. Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statements of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Impairment of Nonfinancial Assets
The carrying values of property and equipment, investment properties and investments in shares of stock of associates and joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statements of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Customers' Deposits
Customers' deposits, included under "Accounts payable and other current liabilities" account, mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statements of income as the related obligations to the real estate buyers are fulfilled.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

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

Dividends
Dividends on common shares are recognized as liability and deducted from equity when approved by the BOD. Dividends for the year that are approved after balance sheet date are dealt with as an event after the reporting period.

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

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

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

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

Management and Service Fees. Revenue is recognized when earned in accordance with the terms of the agreements.

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

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

Cost and Expenses

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

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

Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affects cost of real estate sold and gross profit are recognized in the year in which changes are determined.

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

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

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

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

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

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

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

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

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

Taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

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

<u>Business Segments</u>
The Company is organized and managed separately according to the nature of business. The four operating business segments are mall, residential, commercial and hotels and convention centers. These operating businesses are the basis upon which the Company reports its segment information presented in Note 5 to the consolidated financial statements.

<u>Basic/Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to owners of the Parent by the weighted-average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

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

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

5. **Segment Information**

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

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

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

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

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

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

Inter-segment Transactions

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

Business Segment Data

	2013					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱34,306,856**	**₱20,906,585**	**₱2,928,283**	**₱1,652,686**	**₱–**	**₱59,794,410**
Inter-segment	**145,454**	**9,565**	**500,252**	**162,024**	**(817,295)**	**–**
	₱34,452,310	**₱20,916,150**	**₱3,428,535**	**₱1,814,710**	**(₱817,295)**	**₱59,794,410**
Segment results:						
Income (loss) before income tax	**₱15,569,490**	**₱4,609,703**	**₱2,181,254**	**(₱43,087)**	**(₱1,607,269)**	**₱20,710,091**
Benefit from (provision for) income tax	**(3,709,006)**	**(367,900)**	**(327,890)**	**(29,367)**	**450,000**	**(3,984,163)**
Net income (loss)	**₱11,860,484**	**₱4,241,803**	**₱1,853,364**	**(₱72,454)**	**(₱1,157,269)**	**₱16,725,928**
Net income (loss) attributable to:						
Equity holders of the Parent	**₱11,454,753**	**₱4,241,803**	**₱1,853,364**	**(₱72,454)**	**(₱1,202,646)**	**₱16,274,820**
Non-controlling interests	**405,731**	**–**	**–**	**–**	**45,377**	**451,108**
Segment assets	**₱185,715,888**	**₱97,345,097**	**₱47,335,393**	**₱7,173,803**	**(₱1,986,499)**	**₱335,583,682**
Segment liabilities	**₱92,345,056**	**₱50,203,798**	**₱26,466,344**	**₱1,682,990**	**(₱1,336,031)**	**₱169,362,157**
Other information:						
Capital expenditures	**₱25,867,627**	**₱12,439,263**	**₱5,002,947**	**₱146,437**	**₱–**	**₱43,456,274**
Depreciation and amortization	**4,755,452**	**233,137**	**670,444**	**375,122**	**(53,215)**	**5,980,940**

	2012 (As restated - see Notes 2 and 6)					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidate Balances
			(In Thousands)			
Revenue:						
External customers	₱30,496,303	₱22,759,320	₱2,558,281	₱1,401,190	₱–	₱57,215,094
Inter-segment	155,247	2,028	518,650	54,527	(730,452)	–
	₱30,651,550	₱22,761,348	₱3,076,931	₱1,455,717	(₱730,452)	₱57,215,094
Segment results:						
Income (loss) before income tax	₱14,088,139	₱5,062,309	₱3,352,345	(₱94,864)	(₱1,974,035)	₱20,433,894
Benefit from (provision for) income tax	(3,366,560)	(99,358)	(334,867)	11,153	(829)	(3,790,461)
Net income (loss)	₱10,721,579	₱4,962,951	₱3,017,478	(₱83,711)	(₱1,974,864)	₱16,643,433
Net income (loss) attributable to:						
Equity holders of the Parent	₱10,329,388	₱4,962,951	₱3,017,478	(₱83,711)	(₱2,023,329)	₱16,202,777
Non-controlling interests	392,191	–	–	–	48,465	440,656
Segment assets	₱148,645,287	₱88,090,399	₱60,827,412	₱6,080,086	(₱18,991,068)	₱284,652,116
Segment liabilities	₱78,645,353	₱44,717,364	₱11,657,619	₱1,685,697	(₱2,515,902)	₱134,190,131
Other information:						
Capital expenditures	₱21,114,932	₱11,403,994	₱1,725,722	₱30,244	₱–	₱34,274,892
Depreciation and amortization	3,984,526	151,171	879,965	111,139	–	5,126,801

	2011 (As restated - see Notes 2 and 6)					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱26,725,687	₱17,506,085	₱4,702,062	₱1,135,409	₱–	₱50,069,243
Inter-segment	151,644	845	249,455	57,906	(459,850)	–
	₱26,877,331	₱17,506,930	₱4,951,517	₱1,193,315	(₱459,850)	₱50,069,243
Segment results:						
Income (loss) before income tax	₱12,074,215	₱4,227,735	₱2,982,940	(₱176,269)	(₱2,065,779)	₱17,042,842
Benefit from (provision for) income tax	(2,838,169)	14,552	(210,154)	(6,938)	–	(3,040,709)
Net income (loss)	₱9,236,046	₱4,242,287	₱2,772,786	(₱183,207)	(₱2,065,779)	₱14,002,133
Net income (loss) attributable to:						
Equity holders of the Parent	₱8,909,820	₱4,242,287	₱2,772,786	(₱183,207)	(₱2,112,816)	₱13,628,870
Non-controlling interests	326,226	–	–	–	47,037	373,263
Segment assets	₱128,594,425	₱62,152,808	₱53,263,546	₱5,872,557	(₱21,020,246)	₱228,863,090
Segment liabilities	₱64,950,476	₱23,234,756	₱11,835,191	₱1,592,799	(₱1,811,292)	₱99,801,930
Other information:						
Capital expenditures	₱16,550,284	₱3,323,255	₱1,679,154	₱70,438	₱–	₱21,623,131
Depreciation and amortization	4,214,935	131,524	354,851	122,196	–	4,823,506

For the years ended December 31, 2013, 2012 and 2011, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

6. **Business Combinations**

Common Control Business Combinations
As disclosed in Note 1, SMPH initiated the corporate restructuring of the SM Property Group involving series of transactions. SMPH's management viewed the series of the corporate restructuring transactions described below as a "single" or "linked" arrangements effected by the Sy Family (the Controlling Shareholder) to re-organize its real estate businesses and assets. The companies and real estate assets (accounted for as business units) involved in the restructuring are all under the common control by the Sy Family. Thus, the re-organization was considered as common control business combinations and was accounted for using the pooling of interest method.

Assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. Financial information for periods prior to the date of business combination were also restated.

- *SM Land's Tender Offers for SMDC and HPI*

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

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

- *Merger of SMPH (the "Surviving entity") and SM Land (the "Absorbed entity")*

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

Also included in the plan of merger, which were also approved by the SEC on October 10, 2013 are the following:

a) The increase in the authorized capital stock of SMPH by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation (see Note 21).

b) The change in SMPH's primary purpose from development and operation of commercial shopping centers to a mixed-use real property developer, and the consequent amendment of Article II of the Articles of Incorporation.

The merger resulted to equity adjustment from common control business combination, included under "Additional paid-in capital" account, amounting to ₱1,753 million.

- *Acquisition of Unlisted Real Estate Companies and Real Estate Assets from SMIC and the Sy Family*

  On October 10, 2013, the SEC also approved SMPH's acquisition of SMIC's unlisted real estate companies including SM Hotels and Conventions Corp. (SMHCC), SM Arena Complex Corporation (SMACC), Costa del Hamilo, Inc. (Costa), Prime Metro Estate, Inc. (PMI) and Tagaytay Resort and Development Corporation (TRDC). The SEC likewise approved SMPH's acquisition of real property assets of SMIC which includes among others, SMX Convention Center in MOAC and real properties located in Tagaytay, by issuing new SMPH shares to SMIC. The unlisted real estate companies and real estate assets of SMIC were acquired based on the appraised values as at February 28, 2013 as conducted by CB Richard Ellis. Total acquisition price of the unlisted real estate companies and real property assets amounted to ₱25.8 billion equivalent to 1,382,841,458 SMPH common shares issued based on SMPH 30-day VWAP of ₱18.66.

  The acquisition of real estate companies and real estate assets resulted to equity adjustment from common control business combination, included under "Additional paid-in capital" account, amounting to ₱12,067 million.

<u>Other Common Control Business Combinations</u>
In 2013, SMPH also acquired SM Store (China) Holdings Ltd. Co. (SM Store) through its newly incorporated subsidiary, Simply Prestige Limited, for a nominal amount. As a result of the acquisition, SM Store became a wholly-owned subsidiary of SMPH. SM Store owns and operates all the SM Department Stores in the SM Malls in China. SM Store is owned and controlled by the Sy Family. Thus, the transaction was considered a combination of businesses under common control for which pooling of interests was applied. The excess of the cost of business combination over the paid-up capital amounting to ₱110 million is included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets.

Business Acquisitions
In January 2013, the Company entered into a Binding Share Purchases Agreement for the acquisition of 100% interest in CHAS Realty and Development Corporation and its subsidiaries (CHAS) for a total purchase consideration of ₱1,685 million. CHAS is engaged in the business of shopping mall operations which owns Cabanatuan Megacenter in Nueva Ecija. The Company acquired CHAS to expand its market share through the pre-existing mall of CHAS.

In December 2013, the Company completed its acquisition of 100% interest in CHAS.

The fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition were based on provisional values.

Total identifiable assets acquired amounted to ₱1,577 million, which mainly consist of investment properties amounting to ₱1,385 million and cash and other assets amounting to ₱192 million. Total identifiable liabilities assumed amounted to ₱271 million, which mainly consist of accounts payable and other current liabilities amounting to ₱72 million and deferred tax liabilities amounting to ₱199 million. The resulting identifiable net assets acquired amounted to ₱1,306 million.

Provisional goodwill which relates to the value of expected synergies arising from the acquisition of CHAS amounted to ₱379 million.

The fair value of acquired receivables amounting to ₱73 million (included in "Cash and other assets") approximates their carrying value. No impairment loss was provided on these receivables.

The Company's consolidated revenue and net income would have increased by ₱80 million and decreased by ₱105 million, respectively, for the year ended December 31, 2013 had the acquisition of CHAS took place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.

Net cash outflow from the acquisition of CHAS amounted to ₱2,238 million, inclusive of advances made to CHAS prior to the acquisition amounting to ₱665 million, and net of cash acquired from CHAS amounting to ₱112 million.

7. **Cash and Cash Equivalents**

This account consists of:

	2013	2012 (As restated- see Note 6)
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱2,869,204**	₱1,183,887
Temporary investments (see Note 22)	**24,272,302**	20,115,479
	₱27,141,506	₱21,299,366

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

Interest income earned from cash in banks and temporary investments amounted to ₱529 million, ₱589 million and ₱563 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

8. Short-Term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱888 million and ₱821 million as at December 31, 2013 and 2012, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated anytime by the Company.

Interest income earned from short-term investments amounted to ₱29 million, ₱27 million and ₱28 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds and listed common shares amounting to ₱1,151 million and ₱1,339 million as at December 31, 2013 and 2012, respectively. The Philippine government and corporate bonds have yields ranging from 4.90% to 8.64% in 2013 and 2012. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2014 to 2017.

The movements in this account are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of the year	**₱1,338,777**	₱1,196,956
Disposals	**(300,448)**	(38,508)
Mark-to-market gains during the year	**93,996**	194,768
Unrealized foreign exchange gains (loss)	**19,139**	(14,439)
At end of the year	**₱1,151,464**	₱1,338,777

Mark-to-market gains on changes in fair value of investments held for trading are included under “Others - net” account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱28 million, ₱43 million and ₱42 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

10. **Receivables**

This account consists of:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Trade:		
Sale of real estate	**₱28,012,712**	₱23,276,263
Rent:		
Third parties	**2,707,222**	1,965,685
Related parties (see Note 22)	**2,674,980**	2,715,628
Promotions and sponsorships:		
Third parties	**156,764**	151,037
Related parties (see Note 22)	**–**	29,298
Others (see Note 22)	**130,012**	109,938
Due from related parties (see Note 22)	**2,143,506**	2,383,551
Advances to suppliers	**735,039**	738,059
Receivable from a co-investor	**273,878**	246,079
Accrued interest (see Note 22)	**163,500**	69,113
Others	**787,061**	838,063
	37,784,674	32,522,714
Less allowance for doubtful accounts	**322,904**	188,176
	37,461,770	32,334,538
Less noncurrent portion of receivables from sale of real estate (see Note 17)	**10,277,336**	15,188,843
	₱27,184,434	₱17,145,695

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

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate mainly consist of receivables subject to in-house financing with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5-year term.

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱4,136 million and ₱1,975 million for the years ended December 31, 2013 and 2012, respectively.

- The terms and conditions relating to related party receivables are further discussed in Note 22.

- Receivables from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 17).

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

Interest income earned from receivables from sale of real estate and related parties totaled ₱67 million, ₱106 million and ₱103 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

The movements in the allowance for doubtful accounts related to receivables from sale of real estate are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of the year	**₱188,176**	₱83,431
Provision for doubtful accounts	**134,728**	104,745
At end of the year	**₱322,904**	₱188,176

The aging analyses of receivables as at December 31 are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Neither past due nor impaired	**₱32,689,037**	₱28,929,063
Past due but not impaired:		
Less than 30 days	**928,277**	204,710
31–90 days	**1,443,720**	348,202
91–120 days	**480,859**	698,495
Over 120 days	**1,919,877**	2,154,068
Impaired	**322,904**	188,176
	₱37,784,674	₱32,522,714

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

11. Condominium and Residential Units for Sale

This account consists of the following:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Condominium units for sale	**₱5,788,429**	₱2,589,917
Residential units and subdivision lots	**314,224**	379,840
	₱6,102,653	₱2,969,757

The movements in “Condominium units for sale” account are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of year	**₱2,589,917**	₱724,043
Transfer from land and development (see Note 12)	**7,329,622**	2,668,888
Cost of real estate sold (see Note 23)	**(4,131,110)**	(803,014)
At end of year	**₱5,788,429**	₱2,589,917

Condominium units for sale pertain to the completed projects of SMDC, HPI and Costa. Condominium units for sale are stated at cost as at December 31, 2013 and 2012.

The movements in “Residential units and subdivision lots” account are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of year	**₱379,840**	₱221,321
Cost of real estate sold (see Note 23)	**(65,616)**	(88,732)
Transfer from land and development (see Note 12)	–	247,251
At end of year	**₱314,224**	₱379,840

Residential units and subdivision lots for sale are stated at cost as at December 31, 2013 and 2012.

12. **Land and Development**

This account consists of the following:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Land and development	**₱33,302,111**	₱30,560,111
Land held for future development	**1,519,073**	1,595,893
Project development cost	–	123,819
	34,821,184	32,279,823
Less current portion	**13,281,246**	11,673,553
	₱21,539,938	₱20,606,270

The movements in “Land and development” account are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of year	**₱30,560,111**	₱21,791,018
Development cost incurred	**15,099,301**	17,389,891
Land acquisitions	**1,760,724**	7,541,781
Capitalized borrowing cost (see Note 20)	**866,061**	692,851
Land cost transferred from land held for future development	**80,131**	215,276
Cost of real estate sold (see Note 23)	**(7,724,013)**	(13,084,020)
Transfer to condominium and residential units for sale (see Note 11)	**(7,329,622)**	(2,916,139)
Disposal of land (see Note 22)	–	(335,992)
Reimbursement of costs	–	(494,879)
Reclassification to property and equipment (see Note 15)	**(10,582)**	(171,676)
Reclassification to investment property (see Note 16)	–	(68,000)
At end of year	**₱33,302,111**	₱30,560,111

Borrowing costs capitalized to land and development account amounted to ₱866 million and ₱693 million in 2013 and 2012, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.8% to 5.1% in 2013 and 4.8% to 6.9% in 2012.

SMDC
Land and development costs include those attributable to SMDC which pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱32,645 million and ₱29,013 million as at December 31, 2013 and 2012, respectively.

SMDC acquired Lacsona Land Company, Inc., Guadix Land Corporation and Metro South Davao Property Corporation for ₱600 million, ₱1,500 million and ₱498 million, respectively, in 2012. The purchases of these subsidiaries were accounted for as asset acquisition. At acquisition date, these subsidiaries own parcels of land which are to be developed into commercial/residential condominium projects.

Costa
Costa’s land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to completed projects amounted to ₱400 million and ₱364 million as at December 31, 2013 and 2012, respectively.

In 2012, Costa completed the construction of Miranda and Carola condominium buildings. The completed condominium buildings were accordingly classified as part of “Condominium units for sale” in 2012. As at December 31, 2013 and 2012, the development of macro-infrastructure is still ongoing.

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱1,364 million and ₱1,600 million as at December 31, 2013 and 2012, respectively.

Land Held for Future Development
This represents the payment received by HPI from Belle Corporation (Belle) for its subscription to HPI's capital stock before the tender offer by SM Land. This account also includes parcels of land subsequently acquired by HPI from Belle after its subscription. The movements in "Land held for future development" are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of year	**₱1,595,893**	₱1,730,098
Transfer to land and development costs and others	**(76,820)**	(134,205)
At end of year	**₱1,519,073**	₱1,595,893

In 2011, HPI sold a parcel of land for future development with cost amounting to ₱2 million. Gain on sale of land amounting to ₱8 million and is included in "Others - net" account in the consolidated statements of income.

Land and development are stated at cost as at December 31, 2013 and 2012. There is no allowance for inventory write down as at December 31, 2013 and 2012.

13. **Available-for-Sale Investments**

This account consists of investments in:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Shares of stock:		
Listed (see Note 22)	**₱23,360,756**	₱23,295,298
Unlisted	**8,318**	7,830
Corporate notes (see Note 22)	–	1,000,000
	23,369,074	24,303,128
Less current portion of AFS investments	–	1,000,000
	₱23,369,074	₱23,303,128

- Listed shares of stock pertain to investments in publicly-listed companies. A portion of investments amounting to ₱10,365 million and ₱3,587 million as at December 31, 2013 and 2012, respectively, were pledged as collateral for a portion of the Company's long-term loans (see Note 20).

- Unlisted shares of stock pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Company intends to hold them for the long term.

- Investment in corporate notes pertain to instruments issued by BDO with fixed interest rate of 6.80%. This investment is intended to meet short-term liquidity requirements. These were early redeemed in 2013 (see Note 22).

Dividend income from investments in listed and unlisted shares of stock amounted to ₱401 million, ₱145 million and ₱269 million in 2013, 2012 and 2011, respectively.

Interest income earned from investment in corporate notes amounted to ₱34 million in 2013 and ₱68 million each in 2012 and 2011.

In 2013, 2012 and 2011, a total of 389,612 shares, 385,000 shares and 50.1 million shares with acquisition cost of ₱101 million, ₱124 million and ₱107 million were sold resulting to a realized gain, included in "Others - net" account in the consolidated statements of income, amounting to ₱285 million, ₱158 million and ₱103 million, respectively.

The movements in the "Net unrealized gain on AFS investments" are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
At beginning of the year	**₱19,781,021**	₱13,323,397
Unrealized gain due to changes in fair value	**462,438**	6,616,068
Transferred to profit or loss -		
Realized gain from sale of AFS investments	**(285,129)**	(158,444)
At end of the year	**₱19,958,330**	₱19,781,021

14. Prepaid Expenses and Other Current Assets

This account consists of:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Advances and deposits	**₱4,034,093**	₱6,329,505
Input and creditable withholding taxes	**3,235,635**	3,300,619
Prepaid taxes and other prepayments	**1,845,150**	831,899
Cash in escrow (see Note 22)	**439,119**	98,996
Supplies and inventories	**271,045**	32,016
Advances for project development (see Note 22)	**88,615**	1,145,334
Others	**22,463**	275,816
	₱9,936,120	₱12,014,185

- Advances pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. Deposits include advance payments for land acquisition amounting to ₱809 million and ₱1,916 million as at December 31, 2013 and 2012, respectively. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Prepaid taxes and other prepayments mainly consist of advance payments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with the Company's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account. Interest income earned from the cash in escrow amounted to ₱5 million, ₱84 million and ₱108 million in 2013, 2012 and 2011, respectively (see Note 24).

- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

15. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2011							
(As restated - see Note 6)	₱400,895	₱680,701	₱64,090	₱67,056	₱542,904	₱–	₱1,755,646
Additions	73,941	20,266	30,334	30,751	394,889	31,333	581,514
Disposals	(8,280)	–	(326)	–	(9,799)	–	(18,405)
Reclassifications (see Notes 12 and 16)	(197,338)	353,763	101	–	4,342	–	160,868
Balance at December 31, 2012							
(As restated - see Note 6)	269,218	1,054,730	94,199	97,807	932,336	31,333	2,479,623
Additions	2,156	240,919	48,928	3,978	144,909	–	440,890
Disposals/retirements	–	(70,491)	(3)	(2,621)	(9,028)	–	(82,143)
Reclassifications (see Notes 12 and 16)	(503)	20,571	116	(165)	(3,007)	(31,333)	(14,321)
Balance at December 31, 2013	₱270,871	₱1,245,729	₱143,240	₱98,999	₱1,065,210	₱–	₱2,824,049
Accumulated Depreciation and Amortization							
Balance at December 31, 2011							
(As restated - see Note 6)	₱59,195	₱293,761	₱22,407	₱33,370	₱166,260	₱–	₱574,993
Depreciation and amortization							
(see Note 23)	35,236	101,228	15,599	15,257	146,441	–	313,761
Disposals/retirements	–	–	(260)	–	(5,937)	–	(6,197)
Balance at December 31, 2012							
(As restated - see Note 6)	94,431	394,989	37,746	48,627	306,764	–	882,557
Depreciation and amortization							
(see Note 23)	11,530	162,761	42,429	6,168	159,206	–	382,094
Disposals/retirements	–	(13,061)	(1)	(950)	(2,639)	–	(16,651)
Reclassifications	(29)	(1,999)	(97)	(13)	(706)	–	(2,844)
Balance at December 31, 2013	₱105,932	₱542,690	₱80,077	₱53,832	₱462,625	₱–	₱1,245,156
Net Book Value							
As at December 31, 2012 (As restated - see Note 6)	₱174,787	₱659,741	₱56,453	₱49,180	₱625,572	₱31,333	₱1,597,066
As at December 31, 2013	**164,939**	**703,039**	**63,163**	**45,167**	**602,585**	**–**	**1,578,893**

As at December 31, 2013 and 2012, the Company has no idle property and equipment and the carrying amount of fully depreciated property and equipment still in use amounted to ₱82 million and ₱63 million, respectively.

16. **Investment Properties**

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2011					
(as restated - see Note 6)	₱29,662,918	₱95,351,926	₱17,501,583	₱19,777,363	₱162,293,790
Additions	4,739,234	5,610,240	2,682,747	11,650,679	24,682,900
Reclassifications	454,006	12,664,964	1,490,622	(14,532,570)	77,022
Translation adjustment	(176,783)	(611,091)	(72,353)	(220,612)	(1,080,839)
Disposals	–	(2,646,458)	(1,756)	–	(2,648,214)
Balance as at December 31, 2012					
(as restated - see Note 6)	34,679,375	110,369,581	21,600,843	16,674,860	183,324,659
Additions	5,390,076	7,107,692	1,497,287	12,828,715	26,823,770
Reclassifications	69,532	6,732,386	519,121	(6,731,378)	589,661
Translation adjustment	406,331	1,706,129	206,854	587,069	2,906,383
Disposals	–	–	–	–	–
Balance as at December 31, 2013	₱40,545,314	₱125,915,788	₱23,824,105	₱23,359,266	₱213,644,473
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2011					
(as restated - see Note 6)	₱906,888	₱22,100,735	₱9,313,866	₱–	₱32,321,489
Depreciation and amortization (see Note 23)	102,137	3,306,734	1,404,169	–	4,813,040
Reclassifications	(10,233)	(76,254)	(31,139)	–	(117,626)
Impairment loss	–	(1,536,342)	(1,756)	–	(1,538,098)
Translation adjustment	(7,971)	–	(464)	–	(8,435)
Balance as at December 31, 2012					
(as restated - see Note 6)	990,821	23,794,873	10,684,676	–	35,470,370
Depreciation and amortization (see Note 23)	157,742	3,744,099	1,697,005	–	5,598,846
Reclassifications	29	521	380	–	930
Translation adjustment	47,656	783,816	76,446	–	907,918
Balance as at December 31, 2013	₱1,196,248	₱28,323,309	₱12,458,507	₱–	₱41,978,064
Net Book Value					
Balance as at December 31, 2012					
(as restated - see Note 6)	₱33,688,554	₱86,574,708	₱10,916,167	₱16,674,860	₱147,854,289
As at December 31, 2013	**39,349,066**	**97,592,479**	**11,365,598**	**23,359,266**	**171,666,409**

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱494 million and ₱447 million as at December 31, 2013 and 2012, respectively, and a fair value of ₱13,531 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱5,001 million and ₱4,852 million as at December 31, 2013 and 2012, respectively, and with estimated fair value of ₱20,109 million and ₱10,874 million as at December 31, 2013 and 2012, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Consolidated rent income from investment properties amounted to ₱32,195 million, ₱28,952 million and ₱25,208 million for the years ended December 31, 2013, 2012 and 2011, respectively. Consolidated direct costs and expenses from investment properties which generate income amounted to ₱17,075 million, ₱15,088 million and ₱13,329 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱18,279 million and ₱15,245 million, and landbanking and commercial building constructions amounting to ₱5,080 million and ₱1,430 million as at December 31, 2013 and 2012, respectively.

In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa. In 2012, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF-Paranaque, SM Seaside City Cebu, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod, SM City Clark, SM City Dasmariñas, and SM City Sta. Rosa.

Shopping mall complex under construction includes cost of land amounting to ₱2,149 million and ₱1,615 million as at December 31, 2013 and 2012, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱82,058 million and ₱53,965 million as at December 31, 2013 and 2012, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱28,857 million and ₱14,393 million as at December 31, 2013 and 2012, respectively.

Interest capitalized to the construction of investment properties amounting to ₱77 million and ₱130 million in 2013 and 2012, respectively. Capitalization rates used range from 5.83% to 7.20% and 5.75% to 6.13% for the years ended December 31, 2013 and 2012, respectively.

The fair value of investment properties amounted to ₱540,040 million as at February 28, 2013 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	10.00%
Capitalization rate	7.40%
Average growth rate	5.00%

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at December 31, 2013, the Company's management believes that there were no conditions present in 2013 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

17. Other Noncurrent Assets

This account consists of:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Receivables from sale of real estate (see Note 10)	**₱10,277,336**	₱15,188,843
Investments in associates and joint ventures	**5,756,294**	252,059
Bonds and deposits	**4,964,606**	2,573,793
Advances for project development	**3,607,169**	1,974,433
Others (Notes 22 and 25)	**4,669,305**	2,443,609
	₱29,274,710	₱22,432,737

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 19 malls across Metro Manila and Luzon. The investments in Waltermart were accounted as joint ventures using equity method of accounting because the contractual arrangement between the parties establishes joint control.

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

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

Below are the financial information of the Company's interests in all individually immaterial associates and joint ventures that are accounted for using the equity method:

Associate
The carrying value of investment in associate amounted to ₱576 million and ₱252 million as at December 31, 2013 and 2012, respectively. This consists of the acquisition cost amounting to ₱281 million and P252 million as at December 31, 2013 and 2012, respectively, and cumulative equity in net earnings amounting to ₱295 and nil as at December 31, 2013 and 2012, respectively. The share in profit and total comprehensive income amounted to ₱295 million and nil for the years ended December 31, 2013 and 2012, respectively.

Joint Ventures
The aggregate carrying values of investments in joint ventures amounted to ₱5,180 as at December 31, 2013. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱65 million as at and for the year ended December 31, 2013. The aggregate share in profit and total comprehensive income amounted to ₱65 million for the year ended December 31, 2013.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2013 and 2012.

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

18. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱3,250 million and ₱8,974 million as at December 31, 2013 and 2012, respectively. These loans bear interest rates ranging from 2.25% to 4.00% in 2013 and 3.25% to 5.75% in 2012.

Interest expense incurred from loans payable amounted to ₱275 million, ₱105 million and ₱308 million in 2013, 2012 and 2011, respectively (see Note 24).

19. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Trade:		
Third parties	**₱16,533,994**	₱13,343,206
Related parties (see Note 22)	**55,550**	26,242
Due to related parties (see Note 22)	**9,552,978**	7,481,070
Accrued operating expenses:		
Third parties	**4,583,840**	3,724,110
Related parties (see Note 22)	**1,222,079**	1,007,528
Others	**403,374**	76,957
Liability for purchased land (see Note 22)	**5,262,432**	7,639,827
Customers' deposits	**3,575,836**	1,857,665
Deferred output VAT	**834,520**	753,741
Accrued interest (see Note 22)	**535,949**	525,252
Payable to government agencies	**528,374**	514,896
Nontrade	**429,171**	135,727
Others (see Note 22)	**2,897,928**	1,514,976
	46,416,025	38,601,197
Less noncurrent portion of liability for purchased land	**1,117,809**	4,202,128
	₱45,298,216	₱34,399,069

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- The terms and conditions relating to due to related parties are further discussed in Note 22.
- Accrued operating expenses mainly pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial year.
- Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue.
- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial year.

20. **Long-term Debt**

This account consists of:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱33,569,269**	₱10,896,962
Five-year, three-year and two-year bilateral loans	**4,383,631**	3,459,354
Other U.S. dollar loans	**1,103,881**	–
Philippine peso-denominated loans:		
Five-year and ten-year floating and fixed rate notes	**7,327,808**	7,442,919
Five-year, seven-year and ten-year corporate notes	**6,570,932**	6,823,839
Five-year floating rate notes	**4,879,610**	4,920,828
Five-year, seven-year and ten-year fixed and floating rate notes	**4,290,523**	4,966,460
Five-year and ten-year corporate notes	**1,093,094**	1,092,151
Five-year, seven-year and ten-year fixed rate notes	–	795,342
Other bank loans	**8,581,727**	7,159,491
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**2,235,771**	2,272,374
Three-year loan	**961,827**	1,111,112
Philippine peso-denominated loans:		
Fixed rate term loans	**18,985,308**	1,834,750
Fixed rate corporate notes	**8,148,556**	18,213,777
Five-year bilateral loans	**931,053**	616,791
	103,062,990	71,606,150
Less current portion	**7,387,260**	3,856,767
	₱95,675,730	₱67,749,383

Parent Company

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$300 million unsecured loan obtained on various dates in 2013. The loan bears an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 23, 2018. Portion of the loan amounting to US$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270 million unsecured loan obtained on various dates in 2012 and 2011 from a US$270 million facility. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 21, 2016 (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$200 million unsecured loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
This consists of the following:

- The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively (see Notes 28 and 29). The remaining balance of US$25 million matured on November 20, 2013.

- US$10 million and US$40 million, out of US$50 million five-year bilateral unsecured loan, obtained in 2012 and 2013, respectively. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017 (see Note 28).

- US$30 million and US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 28 and 29).

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

- US$25 million five-year bilateral unsecured loan drawn on November 20, 2013. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 20, 2018 (see Note 28).

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013. The loan was prepaid on January 13, 2012. The related unamortized debt issuance costs charged to expense amounted to ₱25 million in 2012 (see Notes 28 and 29).

Philippine Peso-denominated Five-Year and Ten-Year Floating and Fixed Rate Notes
This represents five-year and ten-year floating and fixed rate notes obtained on June 19, 2012 amounting to ₱3,450 million and ₱1,000 million for the floating and ₱680 million and ₱2,370 million for the fixed, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱50 million on March 19, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱0.4 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱196 million on March 20, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtained on January 12, 2012 amounting to ₱200 million, ₱1,012 million, ₱133 million, and ₱3,655 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱634 million on April 12, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱5 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.11% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively. The Company prepaid the ₱200 million and ₱3,700 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17 million in 2012 (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. The loans amounting to ₱1,000 million, ₱1,200 and ₱800 were prepaid on June 17, 2011, 2012 and 2013, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2011, ₱5 million in 2012 and ₱4 million in 2013 (see Notes 28 and 29).

Other Bank Loans
This consists of the following:

- Five-year term loans amounting to ₱1,625 million obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 6.75%. Portion of the loans is collateralized by AFS investments (see Note 13). Portion of the principal amount was paid amounting to ₱9 million each in 2012 and 2013 (see Note 28).

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015. The Company prepaid ₱175 million of the loan as at September 30, 2013. The related balance of unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013 (see Notes 28 and 29).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 28).

- Five-year bullet loan obtained on October 16, 2009 amounting to ₱2,000 million. The loan bears an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 (see Note 28).

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 28).

All the above Philippine peso-denominated loans of the Parent Company are unsecured except as otherwise indicated.

Subsidiaries

<u>China Yuan Renminbi-denominated Five-Year Loan</u>
This consists of the following:

- A five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2013 and 2012 (see Note 28).

- A five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made as at December 31, 2013. The loan is payable in 2015. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2013 and 2012 (see Note 28).

<u>China Yuan Renminbi-denominated Three-Year Loan</u>
This represents a three-year loan obtained on March 28, 2011 amounting to ¥187 million out of ¥250 million loan facility to finance the construction of shopping malls. The Company prepaid portion of this loan amounting to ¥37 million in 2013 and ¥18 million each in 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears interest rate of 6.20% in 2013 and 2012 (see Note 28).

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

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 16).

Philippine Peso-denominated Fixed Rate Term Loans
This consists of the following:

- Long-term loans amounting to ₱12,075 million obtained on various dates in 2013. The loans bear fixed interest rates ranging from 4.00% to 5.88% with maturities ranging from three to ten years (see Note 28).

- Long-term loan amounting to ₱5,000 million obtained on September 27, 2013. The loan bears fixed interest rate of 4.90% and will mature on September 27, 2018 (see Note 28).

- Long-term loan amounting to ₱2,000 million obtained on December 27, 2012. The loan bears fixed rate of 4.72% and will mature on December 23, 2015 (see Note 28).

- Three-year loan obtained on October 4, 2013 amounting to ₱315 million. The loan carries an interest rate of 4.50% and will mature on October 4, 2016 (see Note 28).

- Five-year term loans amounting to ₱40 million and ₱80 million obtained in 2010 with fixed interest rates of 8.27% and 8.00%, respectively. Both loans will mature in 2015. Portion of the principal amount was paid amounting to ₱1 million in 2012 and ₱1 million in 2013 (see Note 28).

Philippine Peso-denominated Fixed Rate Corporate Notes
This consists of the following:

- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱3,740 million and ₱2,460 million, respectively, issued on June 3, 2013. The Series "A" and Series "B" notes have fixed interest rates of 5.57% and 5.88%, which are payable semi-annually, and with maturity dates of June 3, 2020 and June 3, 2023, respectively (see Note 28).

- Peso-denominated fixed rate corporate notes amounting to ₱2,000 million issued on June 28, 2013. The loan bears fixed interest rate at 5.71% payable semi-annually with maturity date of June 28, 2020 (see Note 28).

- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱2,000 million and ₱8,000 million, respectively, on June 1, 2010. The Series "A" and Series "B" notes have fixed interest rates of 6.76% and 7.73%, which are payable semi-annually, with maturity dates of June 1, 2013 and June 2, 2015, respectively. The notes were pre-terminated in June 2013 (see Note 28).

- Peso-denominated fixed rate corporate notes amounting to ₱6,313 million, issued on April 27, 2012. The notes have fixed interest rate of 6.01% payable semi-annually with maturity date of July 27, 2017. The notes were pre-terminated in June 2013 (see Note 28).

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

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

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

The above loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 and debt service coverage ratio of not less than 1.10:1.00) and material change in ownership or control. As at December 31, 2013 and 2012, the Company is in compliance with the terms of its loan covenants.

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

Debt Issue Cost

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Balance at beginning of year	**₱506,636**	₱513,618
Additions	**775,938**	178,431
Amortization	**(325,481)**	(185,413)
Balance at end of year	**₱957,093**	₱506,636

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

Repayment Schedule

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

Year	Amount
	(In Thousands)
2014	₱7,387,260
2015	13,753,748
2016	23,950,950
2017	7,667,050
2018	32,893,475
2019 to 2023	18,367,600
	₱104,020,083

21. **Equity**

Capital Stock

On May 31, 2013, the BOD approved the increase in the authorized capital stock of the Company by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation. On October 10, 2013, the SEC approved the Company's application for increase in its authorized capital stock.

As at December 31, 2013 and 2012, the Company has an authorized capital stock of 40,000 million and 20,000 million shares, respectively, with a par value of ₱1 a share.

The movements of the capital stock of the Company are as follows:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Number of shares at beginning of year, as previously reported	**17,392,535**	13,917,800
Effect of common control business combinations (see Note 6)	**15,773,765**	15,773,765
Number of shares at beginning of year, as restated	**33,166,300**	29,691,565
Issuance during the period through stock dividends	–	3,474,735
Number of shares at end of year	**33,166,300**	33,166,300

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

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

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

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,544 and 2,493 as at December 31, 2013 and 2012, respectively.

Additional Paid-in Capital - Net

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱16,155,292**	₱16,155,292
Net equity adjustments from common control business combinations	**9,068,132**	6,587,654
Arising from acquisition of non-controlling interests	**(2,919,988)**	(3,073,952)
As presented in the consolidated balance sheets	**₱22,303,436**	₱19,668,994

Net equity adjustments from common control business combinations also include equity adjustments from the acquisitions of SM China subsidiaries in 2007 and 2009 amounting to ₱4,862 million, which were also charged against "Additional paid-in capital" account.

Retained Earnings
In 2013, the BOD approved the declaration of cash dividend of ₱0.27 per share or ₱4,691 million to stockholders of record as of May 16, 2013. This was paid on June 11, 2013. In 2012, the BOD approved the declaration of cash dividends of ₱0.29 per share or ₱4,031 million. In 2011, the BOD approved the declaration of cash dividends of ₱0.27 per share or ₱3,753 million.

On April 24, 2012 and March 22, 2002, the BOD of SMPH approved the appropriation of retained earnings amounting to ₱20,000 million and ₱7,000 million, respectively, for future corporate expansion programs. As at December 31, 2013 and 2012, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million and ₱7,000 million, respectively.

Appropriated retained earnings also include appropriations for landbanking and commercial buildings construction scheduled from 2014 to 2017 amounting to ₱15,200 million transferred from SM Land upon merger (see Note 6).

In 2014, the Company expects to incur around ₱71,000 million for its capital expenditures in Philippines and in China.

As at December 31, 2013, included in shopping mall complex under construction are SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo, and the ongoing expansions and renovations of SM Megamall, SM City Bacolod, and SM City Sta. Rosa.

The retained earnings account is restricted for the payment of dividends to the extent of ₱32,308 million and ₱26,439 million as at December 31, 2013 and 2012, respectively, representing the cost of shares held in treasury (₱3,980 million and ₱3,985 million as at December 31, 2013 and 2012, respectively) and accumulated equity in net earnings of SMPH subsidiaries totaling ₱28,328 million and ₱22,454 million as at December 31, 2013 and 2012, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the company receives the dividends from its subsidiaries.

Treasury Stock
As at December 31, 2013, this includes reacquired capital stock and shares held by a subsidiary totaling 5,394 million shares, stated at acquisition cost of ₱3,980 million.

As at December 31, 2012, this includes reacquired capital stock and shares held by a subsidiary totaling 5,403 million shares, stated at acquisition cost of ₱3,985 million.

22. **Related Party Transactions**

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

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, noninterest-bearing and settlement occurs in cash. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2013 and 2012, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The significant related party transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)	2013	2012 (As restated - see Note 6)	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱115,048**	₱113,641	₱77,249			30 days; noninterest-	Unsecured;
Rent receivable				**₱4,424**	₱14,694	bearing	not impaired
Sponsorship income	**3,898**	14,494	–			Noninterest-bearing	Unsecured;
Sponsorship receivable				–	14,494		not impaired
Service income	**53,040**	62,028	45,296			Noninterest-bearing	Unsecured;
Trade receivable - others				**14,868**	253		not impaired
Interest income	**3,339**	18,493	16,594			Interest-bearing at	Unsecured;
Accrued interest receivable				–	7,294	6.17%	not impaired
Due from related parties	**295**	632,210	78,063	**295**	607,851	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	**189,214**	294,664	232,243			Noninterest-bearing	Unsecured
Accrued rent payable				**(7,417)**	(146,623)	Noninterest-bearing	Unsecured
Administrative expenses	**9,578**	3,922	–			Noninterest-bearing	Unsecured
Accounts payable - others				**(3,561)**	–	Noninterest-bearing	Unsecured
Due to related parties	**2,199,471**	262,835	3,814,175	**(9,538,271)**	(7,338,800)	Noninterest-bearing	Unsecured
Trade payable				**(55,550)**	–	Noninterest-bearing	Unsecured
Investment held for trading	–	–	300,000		299,957	Interest bearing at 6.17%	Unsecured; not impaired
AFS investments	–	–	–	**69,205**	343,054	Noninterest-bearing	Unsecured; not impaired
Dividend income	**4,597**	8,000	7,000	–	–	Noninterest-bearing	Unsecured
Interest expense	–	16,944	58,678			8.40% interest rate	Unsecured
Gain on disposal of land	–	199,500	–	–	–	–	–

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)	**2013**	2012 (As restated - see Note 6)	Terms	Conditions
			(In Thousands)				
Banking and Retail Group							
Cash and cash equivalents	**₱5,289,545**	₱4,588,985	₱2,257,826	**₱21,912,510**	₱16,622,965	Interest bearing based on prevailing rates	Unsecured; not impaired
Short-term investments	**–**	–	–	**887,900**	821,000	Interest bearing at fixed rate of 3.24%	Unsecured; not impaired
Rent income	**10,393,358**	9,276,991	8,061,603			30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable				**2,670,556**	2,700,934		
Deferred rent income				**(103,567)**	(123,567)	Noninterest bearing	Unsecured
Sponsorship income	**3,508**	19,919	–			Noninterest bearing	Unsecured;
Sponsorship receivable				**–**	14,804	Noninterest bearing	not impaired
Interest income	**559,419**	726,847	794,455			Interest at 5.6% per annum	Unsecured; not impaired
Accrued interest receivable				**114,832**	28,287	Noninterest-bearing	Unsecured; not impaired
Marketing fee income	**28,463**	11,842	2,478			Noninterest-bearing	Unsecured; not impaired
Trade receivables - others				**28,463**	10,586	12% -15% of selling price of lots sold	Unsecured; not impaired
Receivable financed	**3,735,340**	1,975,400	2,428,300	**48,307**	–	Without recourse	Unsecured
Interest expense on receivable financing	**147,094**	107,400	–	**–**	–		
Loans payable and long-term debt	**15,006,500**	446,833	685,167	**(2,130,000)**	(2,505,000)	Interest-bearing	Combination of secured and unsecured
Interest expense	**216,644**	138,475	157,752			Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable				**(1,868)**	(5,700)	Noninterest-bearing	Unsecured
Other operating expenses	**–**	3,991	794,923			Noninterest-bearing	Unsecured
Accrued operating expenses				**–**	(3,991)	Noninterest-bearing	Unsecured
Trade payable	**–**	2,459	2,972	**–**	(312)	Noninterest-bearing	Unsecured
AFS investments	**–**	3,323,683	40,279	**8,904,881**	9,623,518	Fixed interest at 6.80%	Unsecured; not impaired
Investment in held for trading	**112,234**	195,473	3,334	**691,711**	579,477	Noninterest-bearing	Unsecured; not impaired
Escrow fund	**763,869**	–	164,806	**862,865**	98,996	Interest bearing based on prevailing rates	Unsecured; not impaired
Tenants' deposits		660	–		(660)	Noninterest-bearing	Unsecured
Acquisition of land	**–**	165,988	–	**(6,184)**	(99,430)	Noninterest-bearing	Unsecured
Dividend income	**240,037**	74,500	122,600	**–**	–	Noninterest-bearing	Unsecured
Other Related Parties							
Service income	**25,315**	4,866	–	**25,200**	5,352	30 days; noninterest-bearing	Unsecured; not impaired
Due from related parties	**367,510**	102,589	610,962	**2,143,211**	1,775,700	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	**4,723**	–	–	**4,723**	–	Noninterest-bearing	Unsecured; not impaired
Trade receivable – others	**11,716**	–	–	**11,716**	–	Noninterest-bearing	Unsecured
Due to related parties	**(104,500)**	119,304	7,333	**(14,707)**	(142,270)	Noninterest-bearing	Unsecured
Accrued expenses	**352,434**	286,153		**(1,109,453)**	(757,019)	Noninterest-bearing	Unsecured

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)	**2013**	2012 (As restated - see Note 6)	Terms	Conditions
			(In Thousands)				
Management fee expense	**₱963,126**	₱860,535	₱647,343			Noninterest-bearing	Unsecured
Accrued management fee				**(₱105,209)**	(₱99,895)	Noninterest-bearing	Unsecured
Administrative expenses	**971**	–	–			Noninterest-bearing	Unsecured
Accounts payable - others				**(638)**	–	Noninterest-bearing	Unsecured
Advances for project development	**518,122**	1,971,200	900	**3,607,122**	3,089,000	Noninterest-bearing	Unsecured; not impaired
Trade payable	–	–	–	–	(25,930)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	**3,615,246**	3,574,790	Noninterest-bearing	Unsecured; not impaired
Sponsorship income	**7,406**	–	–			Noninterest-bearing	Unsecured
Interest income	**21,972**	282	–			Noninterest-bearing	Unsecured
Gain on disposal of land	**33,314**	–	–			–	–

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

Below are the nature of the Company's transactions with the related parties:

Rent
The Company have existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Management Fees
The Company pays management fees to Shopping Center Management Corporation, SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (affiliates) for the management of the office and mall premises.

Service Fees
The Company provides manpower and other services to affiliates.

Dividend Income
The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8, 9 and 13).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 18 and 20).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2013, 2012 and 2011 consist of short-term employee benefits amounting to ₱260 million, ₱247 million and ₱261 million, respectively, and post-employment benefits (pension benefits) amounting to ₱27 million, ₱10 million and ₱14 million, respectively.

23. **Costs and Expenses**

This account consists of:

	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)
		(In Thousands)	
Cost of real estate sold	**₱11,920,739**	₱13,975,766	₱10,303,447
Administrative (see Notes 22 and 25)	**7,037,950**	6,962,745	5,575,528
Depreciation and amortization (see Notes 15 and 16)	**5,980,940**	5,126,801	4,823,506
Business taxes and licenses	**2,748,088**	2,367,654	2,099,659
Film rentals	**2,041,830**	1,877,919	1,650,122
Marketing and selling expenses	**2,053,312**	1,764,535	1,308,579
Rent (see Note 27)	**1,294,925**	926,119	800,390
Management fees (see Note 22)	**1,050,548**	892,458	913,203
Insurance	**353,019**	332,603	260,909
Others	**1,177,514**	918,677	3,036,639
	₱35,658,865	₱35,145,277	₱30,771,982

24. **Interest Income and Interest Expense**

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

	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 7)	**₱528,780**	₱589,364	₱563,106
Short-term investments (see Note 8)	**29,274**	27,203	27,877
Investments held for trading (see Note 9)	**28,310**	43,068	41,844
Available-for-sale investments (see Note 13)	**34,038**	67,700	67,700
Others (see Notes 10 and 14)	**71,911**	190,054	211,141
	₱692,313	₱917,389	₱911,668
Interest expense on:			
Long-term debt (see Note 20)	**₱2,555,238**	₱2,933,757	₱2,619,006
Loans payable (see Note 18)	**274,534**	105,469	307,788
Others	**856,831**	25,599	6,543
	₱3,686,603	₱3,064,825	₱2,933,337

25. **Pension Benefits**

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest appraisal valuation report is as at December 31, 2013.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2013	2012 (As restated - see Notes 2 and 6)	2011 (As restated - see Notes 2 and 6)
		(In Thousands)	
Current service cost	**₱51,692**	₱53,078	₱34,527
Net interest cost (income)	**(2,010)**	(589)	211
Net transitional liability and others	–	2,409	2,409
	₱49,682	₱54,898	₱37,147

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Defined benefit obligation	**₱347,082**	₱142,566
Fair value of plan assets	**(421,502)**	(169,984)
Effect of asset ceiling limit	**7,773**	1,577
Net pension asset	**(₱66,647)**	(₱25,841)

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Defined benefit obligation	**₱14,665**	₱203,486
Fair value of plan assets	**(3,320)**	(146,415)
Net pension liability	**₱11,345**	₱57,071

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Balance at beginning of year	**₱346,052**	₱210,012
Actuarial loss (gain) - changes in actuarial assumptions	**(51,815)**	55,433
Current service cost	**51,692**	53,078
Interest cost	**21,479**	15,418
Benefits paid from assets	**(11,103)**	(1,863)
Actuarial loss (gain) – experience	**5,976**	(8,901)
Transfer to (from) the plan	**(80)**	4,274
Curtailment gain and others	**(454)**	18,601
Balance at end of year	**₱361,747**	₱346,052

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Related to pension asset	**₱347,082**	₱142,566
Related to pension liability	**14,665**	203,486
	₱361,747	₱346,052

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Balance at beginning of year	**₱316,399**	₱201,416
Contributions	**82,015**	74,657
Interest income	**23,530**	16,126
Benefits paid	**(11,103)**	(1,863)
Remeasurement gains	**21,508**	14,342
Transfer to the plan and others	**(7,527)**	11,721
Balance at end of year	**₱424,822**	₱316,399

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Related to pension asset	**₱421,502**	₱169,984
Related to pension liability	**3,320**	146,415
	₱424,822	₱316,399

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

	2013	2012 (As restated - see Notes 2 and 6)
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱1,577**	₱560
Remeasurement loss	**6,155**	898
Interest cost	**41**	119
	₱7,773	₱1,577

The carrying amounts and fair values of the plan assets as at December 31, 2013 and December 31, 2012 are as follows:

	2013		2012 (As restated - see Note 6)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		In Thousands)		
Cash and cash equivalents	**₱13,927**	**₱13,927**	₱19,251	₱19,251
Investments in:				
Debt and other securities	**77,035**	**77,035**	34,799	34,799
Common trust funds	**157,415**	**157,415**	125,008	125,008
Equity securities	**6,824**	**6,824**	10,413	10,413
Government securities	**162,799**	**162,799**	124,517	124,517
Other financial assets	**6,822**	**6,822**	2,411	2,411
	₱424,822	**₱424,822**	₱316,399	₱316,399

The plan assets consist of the following:

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 4.38% to 8.46% and have maturities ranging from 2014 to 2022;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in equity securities consist of listed and unlisted equity securities;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 5.00% to 11.14% and have maturities ranging from 2014 to 2037; and
- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the year ended December 31:

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Cash and cash equivalents	**₱13,927**	₱19,251
Interest income from cash and cash equivalents	**534**	272
Investments in common trust funds	**157,415**	125,008
Income from investments in common trust funds	**1,040**	27,900

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

	2013	2012 (As restated - see Notes 2 and 6)	2011 (As restated - see Notes 2 and 6)
Discount rate	**4.7%–6.4%**	6.0%–6.4%	6.0%–7.1%
Future salary increases	**3.0%–10.0%**	10.0%–11.0%	8.1%–11.0%

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

	2013	2012 (As restated - see Notes 2 and 6)	2011 (As restated - see Notes 2 and 6)
		(In Thousands)	
Actuarial loss (gain)	**(₱67,347)**	₱32,190	₱27,868
Remeasurement loss (excluding amounts recognized in net interest cost)	**6,155**	898	132
	(₱61,192)	₱33,088	₱28,000

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2013 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱21,709)
	(50)	23,820
Future salary increases	100	44,342
	(100)	(37,944)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2013:

Year	Amount
	(In Thousands)
2014	₱12,977
2015	10,822
2016-2017	34,313
2018-2022	502,359

The Company expects to contribute about ₱80 million to its defined benefit pension plan in 2014.

26. **Income Tax**

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Deferred tax assets:		
Unrealized foreign exchange loss and others	**₱499,975**	₱190,923
MCIT	**106,243**	88,169
NOLCO	**122,119**	93,830
Accrued marketing and rent expenses	**248,574**	67,439
Provision for doubtful accounts	**134,177**	56,334
Deferred rent income	**44,071**	37,070
Unamortized past service cost	**4,823**	4,385
	1,159,982	538,150
Deferred tax liabilities:		
Undepreciated capitalized interest ,unrealized foreign exchange gains and others	**(1,965,537)**	(1,530,952)
Unrealized gross profit on sale of real estate	**(310,878)**	(467,545)
Cumulative excess of rent income per straight-line over contractual terms		(58,370)
Pension asset	**(16,483)**	(8,781)
Others	**(199,098)**	(418)
	(2,491,996)	(2,066,066)
Net deferred tax liabilities	**(₱1,332,014)**	(₱1,527,916)

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Deferred tax assets	**₱690,525**	₱486,314
Deferred tax liabilities	**(2,022,539)**	(2,014,230)
	(₱1,332,014)	(₱1,527,916)

As at December 31, 2013 and 2012, unrecognized deferred tax assets amounted to ₱93 million and ₱121 million, respectively, bulk of which pertains to NOLCO of the hotels and convention centers segment.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associate	**(0.1)**	(6.2)	(5.3)
Availment of income tax holiday	**(4.0)**	(5.9)	(5.6)
Interest income subjected to final tax and dividend income exempt from income tax	**(1.5)**	(1.4)	(1.1)
Change in enacted tax rates and others	**(5.2)**	2.0	(0.2)
Effective tax rates	**19.2%**	18.5%	17.8%

27. **Lease Agreements**

Company as Lessor

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

Also, the Company's lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2013	2012 (As restated - see Note 6)
	(In Millions)	
Within one year	**₱1,277**	₱1,244
After one year but not more than five years	**4,427**	5,071
After more than five years	**1,367**	1,626
	₱7,071	₱7,941

Consolidated rent income amounted to ₱32,195 million, ₱28,952 million and ₱25,208 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

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

	2013	2012 (As restated - see Note 6)
	(In Millions)	
Within one year	**₱735**	₱654
After one year but not more than five years	**3,261**	2,889
After five years	**27,330**	22,240
Balance at end of year	**₱31,326**	₱25,783

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,295 million, ₱926 million and ₱800 million for the years ended December 31, 2013, 2012 and 2011, respectively.

28. **Financial Risk Management Objectives and Policies**

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

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to cash flow interest rate risk are disclosed in Notes 7, 9, 13 and 20.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2013 and 2012, after taking into account the effect of interest rate swaps, approximately 64% and 61%, respectively, of its long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 29).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2013 and 2012:

	2013								
	1-<2 Years	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**5-<6 Years**	**>6 Years**	**Total**	**Unamortized Debt Issuance Costs**	**Carrying Value**
					(In Thousands)				
Fixed Rate									
Philippine peso-denominated corporate notes	**₱18,000**	**₱968,000**	**₱8,000**	**₱8,000**	**₱8,000**	**₱10,036,000**	**₱11,046,000**	**(₱65,512)**	**₱10,980,488**
Interest rate	**5.79%-6.65%**	**5.79%-6.65%**	**6.65%**	**6.65%**	**6.65%**	**5.57%-10.11%**			
Philippine peso-denominated fixed rate notes	**₱81,800**	**₱2,219,400**	**₱5,409,800**	**₱1,925,300**	**₱9,568,100**	**₱7,391,600**	**26,596,000**	**(133,928)**	**26,462,072**
Interest rate	**5.86%-8.27%**	**4.72%-8.27%**	**4.32%-6.81%**	**4.00%-6.81%**	**4.77%-6.81%**	**5.88%-6.81%**			
Other bank loans	**₱1,381,750**	**₱218,250**	**₱1,200,000**	**₱–**	**₱–**	**₱–**	**2,800,000**	**(3,932)**	**2,796,068**
Interest rate	**5.00%-5.69%**	**5.00%**	**9.75%**						
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$270,000**	**$–**	**$500,000**	**$–**	**34,184,150**	**(614,882)**	**33,569,268**
Interest rate			**LIBOR + spread**		**LIBOR + spread**				
U.S. dollar-denominated bilateral loans	**$–**	**$–**	**$–**	**$–**	**$25,000**	**$–**	**1,109,875**	**(5,994)**	**1,103,881**
Interest rate					**LIBOR + spread**				
Other U.S. dollar loans	**$–**	**$50,000**	**$–**	**$50,000**	**$–**	**$–**	**4,439,500**	**(55,869)**	**4,383,631**
Interest rate		**LIBOR + spread**		**LIBOR + spread**					
Philippine peso-denominated corporate notes	**₱50,000**	**₱4,800,000**	**₱–**	**₱–**	**₱–**	**₱–**	**4,850,000**	**(17,906)**	**4,832,094**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**							
Philippine peso-denominated floating rate notes	**₱96,500**	**₱96,500**	**₱4,846,500**	**₱3,514,000**	**₱10,000**	**₱940,000**	**9,503,500**	**(49,722)**	**9,453,778**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**			
Philippine peso-denominated five-year bilateral loans	**₱–**	**₱–**	**₱500,000**	**₱–**	**₱–**	**₱–**	**500,000**	**(1,547)**	**498,453**
Interest rate			**PDST-F+margin%**						
Other bank loans	**₱3,008,180**	**₱2,785,280**	**₱–**	**₱–**	**₱–**	**₱–**	**5,793,460**	**(7,801)**	**5,785,659**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**							
China yuan renminbi-denominated loans	**¥375,168**	**¥60,900**	**¥–**	**¥–**	**¥–**	**¥–**	**3,197,598**	**–**	**3,197,598**
Interest rate	**5.76%-6.20%**	**5.76%**							
							₱104,020,083	**(₱957,093)**	**₱103,062,990**

	2012 (As restated - see Note 6)								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
					(In Thousands)				
Fixed Rate									
Philippine peso-denominated corporate notes	₱20,000	₱20,000	₱1,097,300	₱8,660	₱57,485	₱1,856,555	₱3,060,000	(₱18,181)	₱3,041,819
Interest rate	5.79%–6.65%	5.79%–6.65%	5.79%–6.65%	5.79%–6.65%	5.89%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱2,078,500	₱78,500	₱10,078,500	₱78,500	₱7,998,900	₱6,650,100	26,963,000	(159,292)	26,803,708
Interest rate	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-9.85%			
Other bank loans	₱8,750	₱1,530,500	₱189,300	₱1,200,000	₱–	₱–	2,928,550	(5,187)	2,923,363
Interest rate	5.69%-6.75%	5.69%-6.75%	5.69%-8.27%	9.75%					
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$–	$270,000	$–	$–	11,083,500	(186,538)	10,896,962
Interest rate				LIBOR+spread					
U.S. dollar-denominated bilateral loans	$25,000	$–	$–	$–	$–	$–	1,026,250	(5,008)	1,021,242
Interest rate	LIBOR+spread								
Other U.S. dollar loans	$–	$–	$50,000	$–	$10,000	$–	2,463,000	(24,888)	2,438,112
Interest rate			LIBOR+spread		LIBOR+spread				
Philippine peso-denominated corporate notes	₱50,000	₱50,000	₱4,800,000	₱–	₱–	₱–	4,900,000	(25,829)	4,874,171
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
Philippine peso-denominated floating rate notes	₱96,500	₱96,500	₱96,500	₱4,846,500	₱3,514,000	₱950,000	9,600,000	(64,382)	9,535,618
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Philippine peso-denominated five-year bilateral loans	₱–	₱–	₱–	₱500,000	₱–	₱–	500,000	(2,009)	497,991
Interest rate				PDST-F+margin%					
Other bank loans	₱10,000	₱3,010,000	₱3,185,000	₱–	₱–	₱–	6,205,000	(15,322)	6,189,678
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
China yuan renminbi-denominated loans	¥77,476	¥375,168	¥60,900	¥–	¥–	¥–	3,383,486	–	3,383,486
Interest rate	5.76%–6.20%	5.76%–6.20%	5.76%						
							₱72,112,786	(₱506,636)	₱71,606,150

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

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2013	**100**	**(₱108,914)**
	50	**(54,457)**
	(100)	**108,914**
	(50)	**54,457**
2012 (As restated - see Note 6)	100	(₱71,453)
	50	(35,727)
	(100)	71,453
	(50)	35,727

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

<u>Foreign Currency Risk</u>
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk arises mainly from its significant investments and debt issuances which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱24,463 million (US$551 million) and ₱24,586 million (US$554 million), respectively, as at December 31, 2013, and ₱14,581 million (US$355 million) and ₱14,909 million (US$363 million), respectively, as at December 31, 2012.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱44.40 to US$1.00 and ₱41.05 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2013 and 2012, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Thousands)
2013	**1.50**	**₱1,043**
	1.00	**696**
	(1.50)	**(1,043)**
	(1.00)	**(696)**
2012 (As restated - see Note 6)	1.50	₱2,988
	1.00	1,992
	(1.50)	(2,988)
	(1.00)	(1,992)

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, short-term investments and investments held for trading and current AFS investments amounting to ₱27,142 million, ₱888 million, ₱1,151 million and nil, respectively, as at December 31, 2013, and ₱21,299 million, ₱821 million, ₱1,339 million and ₱1,000 million, respectively, as at December 31, 2012 (see Notes 7, 8, 9 and 13). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2013				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Loans payable	**₱–**	**₱3,250,000**	**₱–**	**₱–**	**₱3,250,000**
Accounts payable and other current liabilities*	**6,818,290**	**37,117,032**	**–**	**–**	**43,935,322**
Long-term debt (including current portion)	**–**	**9,321,766**	**94,038,282**	**9,552,723**	**112,912,771**
Derivative liabilities	**–**	**–**	**159,974**	**–**	**159,974**
Liability for purchased land - net of current portion	**–**	**–**	**1,117,809**	**–**	**1,117,809**
Tenants' deposits	**–**	**–**	**10,082,397**	**166,395**	**10,248,792**
Other noncurrent liabilities**	**–**	**–**	**2,786,666**	**–**	**2,786,666**
	₱6,818,290	**₱49,688,798**	**₱108,185,128**	**₱9,719,118**	**₱174,411,334**

	2012 (As restated – see Note 6)				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Loans payable	₱–	₱8,973,500	₱–	₱–	₱8,973,500
Accounts payable and other current liabilities*	–	33,130,431	–	–	33,130,431
Long-term debt (including current portion)	–	6,970,937	67,318,701	11,485,044	85,774,682
Derivative liabilities	–	17,428	212,855	14,047	244,330
Liability for purchased land - net of current portion	–	–	4,202,128	–	4,202,128
Tenants' deposits	–	–	8,857,977	110,646	8,968,623
Other noncurrent liabilities**	–	–	2,672,136	–	2,672,136
	₱–	₱49,092,296	₱83,263,797	₱11,609,737	₱143,965,830

* *Excluding nonfinancial liabilities amounting to ₱1,363 million and ₱1,269 million as at December 31, 2013 and 2012, respectively.*
** *Excluding nonfinancial liabilities amounting to ₱469 million and ₱447 million as at December 31, 2013 and 2012, respectively.*

Credit Risk

The Company trades only with recognized, creditworthy related and third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 29.

Since the Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The Company has no other significant terms and conditions associated with the use of collateral.

As at December 31, 2013 and 2012, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 10). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

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

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

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

As at December 31, 2013 and 2012 the credit quality of the Company's financial assets is as follows:

	2013			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	**₱27,076,823**	**₱–**	**₱–**	**₱27,076,823**
Short-term investments	**887,900**	**–**	**–**	**887,900**
Receivables**	**13,612,072**	**8,798,104**	**4,772,733**	**27,182,909**
Cash in escrow (included under "Prepaid expenses and other current assets")	**439,119**	**–**	**–**	**439,119**
Real estate receivable - noncurrent (included under "Other noncurrent assets")	**–**	**10,277,336**	**–**	**10,277,336**
Bonds and deposits (included under "Other noncurrent assets")	**–**	**20,410**	**–**	**20,410**
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	**1,151,464**	**–**	**–**	**1,151,464**
Derivative assets	**1,778,810**	**–**	**–**	**1,778,810**
AFS Investments				
Shares of stocks and corporate notes	**23,303,431**	**65,643**	**–**	**23,369,074**
	₱68,249,619	**₱19,161,493**	**₱4,772,733**	**₱92,183,845**

* *Excluding cash on hand amounting to ₱65 million*
** *Excluding nonfinancial assets amounting to ₱2 million*

	2012 (As restated - see Note 6)			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	₱21,240,517	₱–	₱–	₱21,240,517
Short-term investments	821,000	–	–	821,000
Receivables**	69,113	13,557,214	3,405,475	17,031,802
Cash in escrow (included under "Prepaid expenses and other current assets")	98,996	–	–	98,996
Real estate receivable - noncurrent (included under "Other noncurrent assets')	–	15,188,843	–	15,188,843
Bonds and deposits (included under "Other noncurrent assets")	–	21,210	–	21,210
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	1,338,777	–	–	1,338,777
Derivative assets	109,979	–	–	109,979
AFS Investments				
Shares of stocks and corporate notes	24,303,128	–	–	24,303,128
	₱47,981,510	₱28,767,267	₱3,405,475	₱80,154,252

* *Excluding cash on hand amounting to ₱59 million.*
** *Excluding nonfinancial assets amounting to ₱114 million*

Equity Price Risk
The Company's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2013 and 2012) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2013	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+9%**	**₱1,765**
	-9%	**(1,765)**

	2012 (As restated - see Note 6)	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+9%	₱1,432
	-9%	(1,432)

Capital Management
Capital includes equity attributable to the owners of the Parent.

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

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

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

As at December 31, 2013 and 2012, the Company's gearing ratios are as follows:

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Loans payable	**₱3,250,000**	₱8,973,500
Current portion of long-term debt	**7,387,260**	3,856,767
Long-term debt - net of current portion	**95,675,730**	67,749,383
Total interest-bearing debt (a)	**106,312,990**	80,579,650
Total equity attributable to equity holders of the parent	**163,266,540**	147,627,681
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱269,579,530**	₱228,207,331
Gearing ratio (a/b)	**39%**	35%

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

	2013	2012 (As restated - see Note 6)
	(In Thousands)	
Loans payable	**₱3,250,000**	₱8,973,500
Current portion of long-term debt	**7,387,260**	3,856,767
Long-term debt - net of current portion	**95,675,730**	67,749,383
Less cash and cash equivalents, short-term investments, investments held for trading and current portion of AFS investments	**(29,180,870)**	(24,459,143)
Total net interest-bearing debt (a)	**77,132,120**	56,120,507
Total equity attributable to equity holders of the parent	**163,266,540**	147,627,681
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱240,398,660**	₱203,748,188
Gearing ratio (a/b)	**32%**	28%

29. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values as at December 31:

	2013		2012 (As restated - see Note 6)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱1,151,464**	**₱1,151,464**	₱1,338,777	₱1,338,777
Derivative assets	**1,778,810**	**1,778,810**	109,979	109,979
	2,930,274	**2,930,274**	1,448,756	1,448,756
Loans and receivables -				
Noncurrent portion of receivable from sale of real estate	**10,277,336**	**9,393,239**	15,188,843	13,876,880
AFS investments -				
Listed shares of stocks and corporate notes	**23,360,756**	**23,360,756**	24,295,298	24,295,298
	₱36,568,366	**₱35,684,269**	₱40,932,897	₱39,620,934
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱159,974**	**₱159,974**	₱244,330	₱244,330
Other financial liabilities:				
Liability for purchased land - net of current portion	**1,117,809**	**1,090,824**	4,202,128	3,953,699
Long-term debt - net of current portion	**95,675,730**	**96,254,926**	67,749,383	70,811,913
Tenants' deposits	**10,248,792**	**9,874,345**	8,968,623	8,528,729
Other noncurrent liabilities*	**2,786,666**	**2,679,120**	2,672,135	2,665,716
	109,828,997	**109,899,215**	83,592,269	85,960,057
	₱109,988,971	**₱110,059,189**	₱83,836,599	₱86,204,387

**Excluding nonfinancial liabilities amounting to ₱469 million and ₱447 million as at December 31, 2013 and 2012, respectively.*

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

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

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

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 5.0% and 5.5% to 8.0% as at December 31, 2013 and 2012, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.39% to 4.76% and 2.7% to 7.1% as at December 31, 2013 and 2012, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.7% to 1.96% and 1.7% to 5.9% as at December 31, 2013 and 2012, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 1.93% to 3.52% and 2.9% to 6.4% as at December 31, 2013 and 2012, respectively.

The Company assessed that the carrying values of cash and cash equivalents, short-term investments, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments. For AFS investments related to unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

As at December 31, 2013 and 2012, the Company has no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3).

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

Fair Value Hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;

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

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

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2013		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	**₱459,754**	**₱–**	**₱–**
Shares	**691,710**	**–**	**–**
Derivative assets	**–**	**1,778,810**	**–**
	1,151,464	**1,778,810**	**–**
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	**–**	**–**	**10,277,336**
AFS investments -			
Shares of stocks	**23,360,756**	**–**	**–**
	₱24,512,220	**₱1,778,810**	**₱10,277,336**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱159,974**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**–**	**–**	**5,235,448**
Long-term debt - net of current portion	**–**	**–**	**103,642,186**
Tenants' deposits	**–**	**–**	**9,874,345**
Other noncurrent liabilities*	**–**	**–**	**2,679,120**
	–	**–**	**121,431,099**
	₱–	**₱159,974**	**₱121,431,099**

**Excluding nonfinancial liabilities amounting to ₱469 million as at December 31, 2013.*

	2012 (As restated - see Note 6)		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading			
Bonds	₱759,300	₱–	₱–
Shares	579,477	–	–
Derivative assets	–	109,979	–
	1,338,777	109,979	–
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	–	–	15,188,843
AFS investments:			
Shares of stocks	23,295,298	–	–
Corporate notes	–	1,000,000	–
	23,295,298	1,000,000	
	₱24,634,075	₱1,109,979	₱15,188,843

	2012 (As restated - see Note 6)		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	₱–	₱244,330	₱–
Other Financial Liabilities:			
Liability for purchased land - net of current portion	–	–	7,391,398
Long-term debt - net of current portion	–	–	74,668,680
Tenants' deposits	–	–	8,968,183
Other noncurrent liabilities*	–	–	2,665,716
	–	–	93,693,977
	₱–	₱244,330	₱93,693,977

**Excluding nonfinancial liabilities amounting to ₱447 million as at December 31, 2012.*

During the years ended December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, non-deliverable forwards and non-deliverable currency swaps.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 20). Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	(In Thousands)			
Unsecured loan	US$200,000	₱8,879,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,659,250	6-month US LIBOR + 1.70%	March 23, 2018

The table below provides the details of SMPH's outstanding cross-currency swaps as at December 31, 2013:

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity
	(In Thousands)					
Floating-to-Fixed	US$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018

Under the floating-to-fixed cross-currency swaps, SMPH effectively converted its US dollar-denominated loan into a Philippine peso-denominated loan when, at inception, it agreed to swap US dollar principal equal to the face amount of the loan for its agreed Philippine peso equivalent (₱8,134 million and ₱6,165 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped. The agreement also requires SMPH to pay fixed interest at the Philippine peso notional amount and receives floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the term loan facility.

Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱1,668 million gain as at December 31, 2013 was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2013. Foreign currency translation loss arising from the hedged loan amounting to ₱1,239 million was recognized in the consolidated statement of income for the year ended December 31, 2013. A foreign exchange gain equivalent to the same amount was recycled from equity to the consolidated statement of income during the same year.

Derivative Financial Instruments not Accounted for as Hedges

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

	December 31, 2013		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed		**Floating-Fixed**	
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	
Outstanding notional amount	**$30,000,000**	**$30,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.53%**	**3.53%**	
Outstanding notional amount	**$20,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**3.18%**		
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F**	**3MPDST-F**	
Pay-fixed rate	**3.65%**	**3.65%**	
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	
Pay-fixed rate	**4.95%**	**4.95%**	
Fixed-Floating			
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**5.44%**	**5.44%**	
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**7.36%**	**7.36%**	
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	

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

Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 20). As at December 31, 2013, these swaps have negative fair values of ₱9 million.

In 2011, the SMPH entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). As at December 31, 2013 and 2012, the floating to fixed interest rate swaps have aggregate negative fair value of ₱114 million and ₱158 million, respectively.

SMPH also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 20). As at December 31, 2013 and 2012, the floating to fixed interest rate swaps has negative fair value of ₱10 million and ₱17 million, respectively.

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

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at December 31, 2013 and 2012, the floating to fixed interest rate swap has a negative fair value of ₱36 million and ₱48 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20).

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

In 2009, SMPH entered into US$ interest rate swap agreements with an aggregate notional amount of US$25 million. Under these agreements, SMPH effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million gain in 2013. As at December 31, 2012, the floating to fixed interest rate swap has a negative fair value of ₱22 million.

Non-deliverable Currency Forwards and Swaps. In 2013 and 2012, the SMPH entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱32 million gain, ₱67 million gain and ₱480 million in 2013, 2012 and 2011, respectively.

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

	2013	2012
	(In Thousands)	
Balance at beginning of year	**(₱134,351)**	(₱122,361)
Net changes in fair value during the year	**1,670,214**	24,406
Fair value of settled derivatives	**82,973**	(36,396)
Balance at end of year	**₱1,618,836**	(₱134,351)

In 2013, the net changes in fair value amounting to ₱1,670 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱115 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱1,668 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱117 million, which is included under "Others - net" account in the consolidated statements of income.

In 2012, the net changes in fair value amounting to ₱24 million include net of interest paid on interest rate swap contracts amounting to ₱27 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives not designated as hedges amounting to ₱51 million, which is included under "Others - net" account in the consolidated statements of income.

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

	2013	2012
	(In Thousands)	
Derivative assets	**₱1,778,810**	₱109,979
Derivative liabilities	**(159,974)**	(244,330)
	₱1,618,836	(₱134,351)

30. EPS Computation

Basic/diluted EPS is computed as follows:

	2013	2012 (As restated - see Note 6)	2011 (As restated - see Note 6)
		(In Thousands)	
Net income attributable to equity holders of the parent (a)	**₱16,274,820**	₱16,202,777	₱13,628,870
Common shares issued at beginning of year*	**33,166,300**	29,691,565	29,691,565
Stock dividends (see Note 21)*	–	3,474,735	3,474,735
Common shares issued at end of year	**33,166,300**	33,166,300	33,166,300
Less treasury stock (see Note 21)	**5,394,370**	5,403,008	5,403,008
Weighted average number of common shares outstanding (b)	**27,771,930**	27,763,292	27,763,292
Earnings per share (a/b)	**₱0.586**	₱0.584	₱0.491

**Retroactively adjusted for stock dividends declared and effect of common control business combination (see Note 6).*

31. Other Matters

Bases Conversion and Development Authority (BCDA) Case

In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order (TRO) against BCDA and Arnel Paciano Casanova, President and CEO of BCDA.

On November 26, 2012, the Company filed with Supreme Court a Very Urgent Manifestation with Motion to Resolve the Company's Application for TRO and Preliminary Injuction related to the termination by the BCDA of the Competitive Challenge on the submitted unsolicited proposal for privatization and development of a 33.13 hectares Bonifacio South Property located in Fort Bonifacio, Taguig City.

On December 20, 2012, the Company filed with the Supreme Court Urgent Manifestation with Reiterative Motion to Resolve Application for TRO and Preliminary Injunction.

On January 9, 2013, the Supreme Court approved the Company's application and issued a TRO wherein BCDA or any of their representatives and or agents are enjoined from proceeding with the bidding process subject of said "Invitation to Bid", enforcing the Supplemental Notice No. 5 and in any way disposing of the subject lot which acts tend to render the Court's resolution of the petition ineffectual, until further orders from Supreme Court.

On January 14, 2013, the Company's counsel received the Motion for Reconsideration filed by the BCDA with the Supreme Court. The Company's counsel filed its Comment/Opposition to the Motion for Reconsideration on February 11, 2013.

On February 21, 2013, the Company's counsel received copies of the Comment-in-Intervention and Motion for Leave to file Comment-in-Intervention and to admit attached Comment-in-Intervention filed by the Department of National Defense and Armed Forces of the Philippines (DND-AFP).

On March 20, 2013, the Supreme Court issued a resolution denying BCDA's urgent motion to dissolve TRO and noting the Company's Comment/Opposition to the Motion for Reconsideration.

On April 30, 2013, the Company filed its Opposition to the Comment-on-Intervention filed by the DND-AFP.

On May 14, 2013, BCDA and Casanova also filed a Motion for Leave to Refer the Case to the En Banc. The Corporation filed an Opposition to this Motion. The Supreme Court issued a resolution denying the Motion. BCDA filed a Motion for Reconsideration. The Corporation filed its Opposition and this remains pending as at November 13, 2013.

On June 5, 2013, BCDA and Casanova filed a Motion to Inhibit the Honorable Presiding Chairman. The Company filed an Opposition to this Motion and this remains pending as at February 24, 2014.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated February 24, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4225152, January 2, 2014, Makati City

February 24, 2014

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES DECEMBER 31, 2013

Annex 68 - E

A.	Financial Assets	Attached
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	Not applicable
C.	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	Attached
D.	Intangible Assets and Other Assets	Not applicable
E.	Long-term Debt	Not applicable
F.	Indebtedness to Related Parties (Long-term Loans from Related Companies)	Not applicable
G.	Guarantees of Securities of Other Issuers	Not applicable
H.	Capital stock	Attached

Additional Components

i)	Reconciliation of Retained Earnings Available for Dividend Declaration	Attached
ii)	List of Philippine Financial Reporting Standards effective as at December 31, 2012	Attached
iii)	Map of Relationships of the Companies within the Group	Attached
iv)	Financial Ratios - Key Performance Indicators	Attached

SM PRIME HOLDINGS, INC. AND SUBSIDARIES
Schedule A. Financial Assets
As at December 31, 2013
(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Income Received and Accrued
Loans and Receivables			
Temporary investments:			
China Construction Bank	Rmb444,395	₱3,258,659	
Banco de Oro (BDO)	₱20,788,336	20,788,336	
China Banking Corporation	29,343	29,343	
Others	195,964	195,964	
Short-term investments - BDO	$20,000	887,900	
		25,160,202	₱558,054
Financial Assets at FVPL			
Investments held for trading:			
China Banking Corporation	11,674,454 shares	691,711	
Banco de Oro RTB	₱150,000	155,775	
Energy Development Corp.	10,000	10,834	
Ayala Corporation	5,000	5,218	
Bureau of Treasury RTB	25,000	54,853	
Travellers International Hotel	$5,000	233,074	
Derivative assets	₱1,778,810	1,778,810	
		2,930,275	28,310
Available-for-sale Investments -noncurrent			
Listed Companies:			
SM Investments Corporation	97,403 shares	69,205	
BDO Unibank, Inc.	75,254,191 shares	5,158,675	
China Banking Corporation	63,495,014 shares	3,746,206	
Ayala Corporation	19,539,049 shares	10,111,458	
Prime Media Holdings, Inc.	500,000 shares	740	
Belle Corporation	735,553,561 shares	3,615,246	
Shang Properties, Inc.	189,550,548 shares	605,614	
Export & Industry Bank	7,829,000 shares	2,036	
Keppel Philippines Marine, Inc.	580,000 shares	2,674	
Picop Resources, Inc.	40,000,000 shares	8,200	
Republic Glass Holding Corporation	15,740,512 shares	40,138	
Benguet Corporation	88,919 shares	565	
		23,360,757	
Unlisted Companies:			
Tagaytay Midlands Golf Club, Inc.	9 shares	4,500	
Philippine Long Distance Telephone Company	292,470 shares	3,071	
Others		746	
		8,317	
		23,369,074	34,038
		₱51,459,551	**₱620,402**

SM PRIME HOLDINGS, INC. AND SUBSIDARIES
Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As at December 31, 2013
(Amounts in Thousands except for Number of Shares)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
SM China Companies	₱13,790,522	₱7,056,264	(₱632,677)	₱-	₱-	₱20,214,109	₱20,214,109
Costa del Hamilo, Inc.	995,961	-	(157,208)	-	-	838,753	838,753
Associated Development Corporation	206,093	-	(9,780)	-	-	196,313	196,313
First Asia Realty Development Corporation	148,448	-	(148,448)	-	-	-	-
SM Development Corporation	116,743	-	(86,419)	-	-	30,324	30,324
Consolidated Prime Development Corporation	60,230	1,548,359	(136,341)	-	-	1,472,248	1,472,248
First Leisure Ventures Group, Inc.	23,537	1,370	(24,136)	-	-	771	771
Magenta Legacy, Inc.	18,125	-	(15,500)	-	-	2,625	2,625
Premier Central, Inc.	11,699	294,754	(271,675)	-	-	34,778	34,778
Premier Southern Corporation	7,365	35,763	(40,748)	-	-	2,380	2,380
Prime Metroestate, Inc.	4,097	-	(3,496)	-	-	601	601
SM Arena Complex Corporation	3,164	-	(3,042)	-	-	122	122
Southernpoint Properties Corporation	2,110	675,982	(604,429)	-	-	73,663	73,663
SM Hotels and Conventions Corp.	1,796	20,626	-	-	-	22,422	22,422
Highlands Prime, Inc.	-	8,960	-	-	-	8,960	8,960
CHAS Realty and Development Corporation	-	56	-	-	-	56	56
	₱15,389,890	₱9,642,134	(₱2,133,899)	₱-	₱-	₱22,898,125	₱22,898,125

SM PRIME HOLDINGS, INC. AND SUBSIDARIES
Schedule H. Capital Stock
As at December 31, 2013

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000,000	27,817,553,961	–	16,221,493,072	4,247,724,383	7,348,336,506

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

Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2013

Unappropriated retained earnings as at January 1, 2013		₱9,090,947,807
Less: Non-actual/unrealized income, net of applicable tax:		
Unrealized mark-to-market gain on investments held for trading	₱10,198,013	
Unrealized mark-to-market gain on derivatives	17,628,179	
Unrealized foreign exchange gain (net of exchange difference attributable to cash and cash equivalents)	69,733,780	
Treasury stock	101,474,705	199,034,677
Unappropriated retained earnings as at January 1, 2013, as adjusted to available for dividend declaration, as previously reported		8,891,913,130
Effects of adoption of the revised Philippine Accounting Standard (PAS) 19 taken retrospectively		7,447,752
Unappropriated retained earnings as at January 1, 2013, as adjusted to available for dividend declaration, as restated		8,899,360,882
Net income closed to retained earnings in 2013	8,667,463,734	
Less: Non-actual/unrealized income, net of applicable tax:		
Unrealized marked-to-market gain on derivatives	43,902,122	
Net income actually earned in 2013		8,623,561,612
Add: Retained earnings of absorbed entity from merger		6,312,020,998
		23,834,943,492
Less: Cash dividends in 2013	4,690,892,979	
Treasury stocks during the year	3,137,079,208	
		7,827,972,187
Retained earnings as at December 31, 2013 available for dividend declaration		**₱16,006,971,305**

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective as at December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs*		Not Early Adopted	
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition*		Not Early Adopted	
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination*		Not Early Adopted	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements*		Not Early Adopted	
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*	Not Early Adopted		
PFRS 9	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities*	Not Early Adopted		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities*	Not Early Adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables*	Not Early Adopted		
	Amendment to PFRS 13: Portfolio Exception*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation*	Not Early Adopted		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution*	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel*	Not Early Adopted		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities*	Not Early Adopted		
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*	Not Early Adopted		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets*	Not Early Adopted		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization*	Not Early Adopted		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting*	Not Early Adopted		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*	Not Early Adopted		
PAS 41	Agriculture			✓

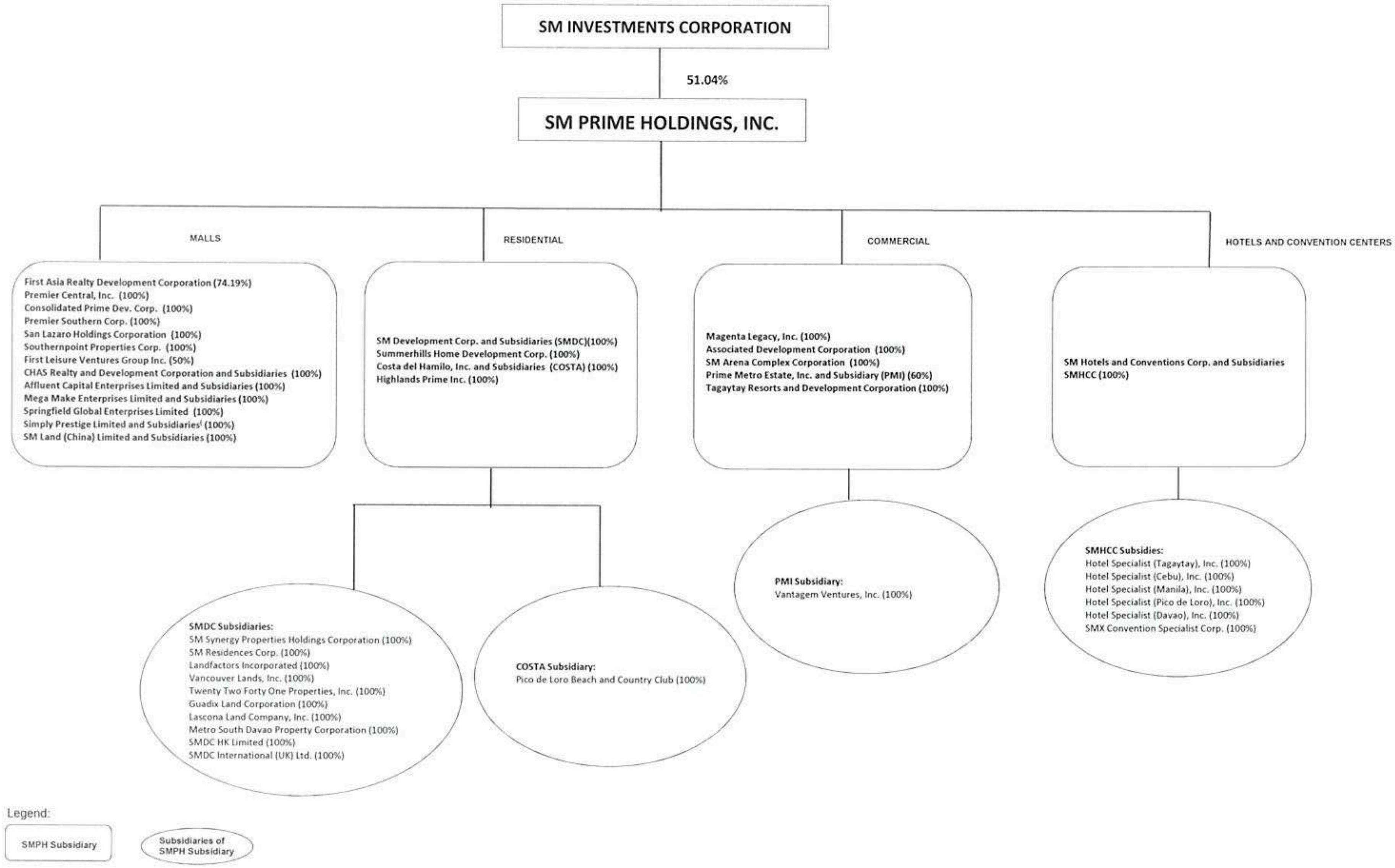
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine*	Not Early Adopted		
IFRIC 21	Levies (IFRIC 21)*	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Standards and interpretations which will become effective subsequent to December 31, 2013.*

Note: Standard and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transactions as at and for the year ended December 31, 2013.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
As of December 31, 2013



Note: % Refers to Effective Ownership

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

		2013	2012
i.	**Current ratio** Total current assets / Total current liabilities	1.51	1.43
ii.	**Debt to equity ratio** Total interest-bearing liabilities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities	0.39:0.61	0.35:0.65
	Net debt to equity ratio Total interest-bearing liabilities less cash and cash equivalents and investment securities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities less cash and cash equivalents and investment securities	0.32:0.68	0.28:0.72
	Debt service coverage ratio Operating cash flows excluding condominium, residential units and land and development / Total loans payable, current portion of long-term debt and interest expense (excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments)	2.15	1.09
iii.	**Asset to equity ratio** Total assets / Total equity attributable to equity holders of the parent	2.06	1.93
iv.	**Earnings before interest, income taxes, depreciation and amortization (EBITDA) to interest expense** Income from operation plus depreciation and amortization / Interest expense	8.17	8.87
	Debt to EBITDA Total interest-bearing liabilities / Income from operation plus depreciation and amortization	3.53	2.96
v.	**Return on equity** Net income attributable to equity holders of the parent / Total average equity attributable to equity holders of the parent	0.10	0.12
	Return on investment properties Net income attributable to equity holders of the parent / Total average investment properties (excluding under construction in progress)	0.12	0.13

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City Makati City on APR 0 7 2014

SM PRIME HOLDINGS, INC.

Pursuant to the requirements of the Securities Regulations Code, this annual report has been signed by the following persons in their capacities and on the dates indicated.

By:

HANS T. SY Date: 4/7/14
President

JEFFREY C. LIM Date: 4/7/14
Executive Vice-President / Chief Finance Officer

TERESA CECILIA H. REYES Date: 4/7/14
Vice President - Finance

EMMANUEL C. PARAS Date: 4/7/14
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 0 7 2014 at Makati City, affiants exhibiting to me their passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HANS T. SY	EB4448660	January 14, 2012	Manila
JEFFREY C. LIM	EB6135323	August 15, 2012	Manila
TERESA CECILIA H. REYES	EB8507028	June 27, 2013	Manila
EMMANUEL C. PARAS	XX4824591	October 23, 2009	Manila

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ROMMELL D. LUMAGUI
NOTARY PUBLIC
ROLL NO. 61067
MAKATI CITY, PHILIPPINES

ROMMELL D. LUMAGUI
Notary Public for Makati City
Appointment No. M-326 until Dec. 31 2014
Roll of Attorney No. 61067
PTR No. 4230497MC, 01/03/14; Makati City
IBP No. 946047 01/03/14; Makati Chapter
SyCipLaw Center 105 Paseo de Roxas
Makati City, 1226 Metro Manila
Philippines