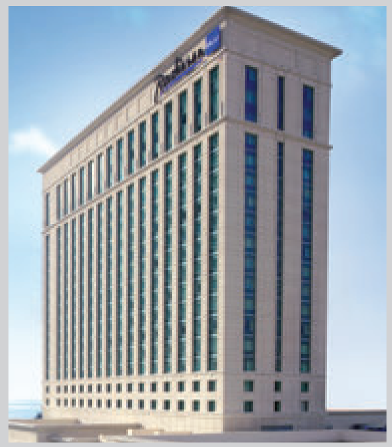
INVESTMENTS CORPORATION

ANNUAL REPORT 2013

THE DYNAMIC WORLD OF SM

INVESTMENTS
CORPORATION


ANNUAL REPORT 2013

Contents

INVESTMENTS CORPORATION

Vision

As a flagship investment company
we aspire towards excellence in everything we do
leveraging the world-class SM brand.

Mission

To deliver sustainable returns
for our stakeholders and provide a catalyst for growth
in the communities we serve
while upholding the highest standards of
corporate citizenship across all our business units.

Values

Our core values are driven by
leadership, integrity, hard work, innovation,
sustainability and accountability.

BUSINESS UNITS

Retail

48 SM Stores
417,526 sqm Net Selling Area
193 Food Stores
584,318 sqm Total Selling Area

Banking

BDO Unibank, Inc.
1st in Terms of Total Resources
PHP22.6 bn Net Income **814** Branches in the Philippines and **1** in Hong Kong

China Banking Corporation
5th in Terms of Total Resources
PHP5.1 bn Net Income **445** Branches



Property

48 Malls in the Philippines and **5** in China
21 Residential Projects
7 Office Buildings
4 Hotels
3 SMX Convention Centers and **2** Mega Trade Halls



Other Investments

Atlas Mining
Belle Corporation

Core Businesses of SM Investments Corporation

RETAIL

SM RETAIL, INC.

100%
Ownership

PROPERTY

SM PRIME

52%
Ownership

BANKING

BDO UNIBANK, INC.

47%
Ownership

CHINA BANKING CORPORATION

20%
Ownership

PORTFOLIO INVESTMENTS

BELLE CORPORATION

28%
Ownership

ATLAS MINING

29%
Ownership

CITYMALL COMMERCIAL CENTERS

34%
Ownership

Effective ownership % holding

ANNUALISED RETURN ON SHARE PRICE

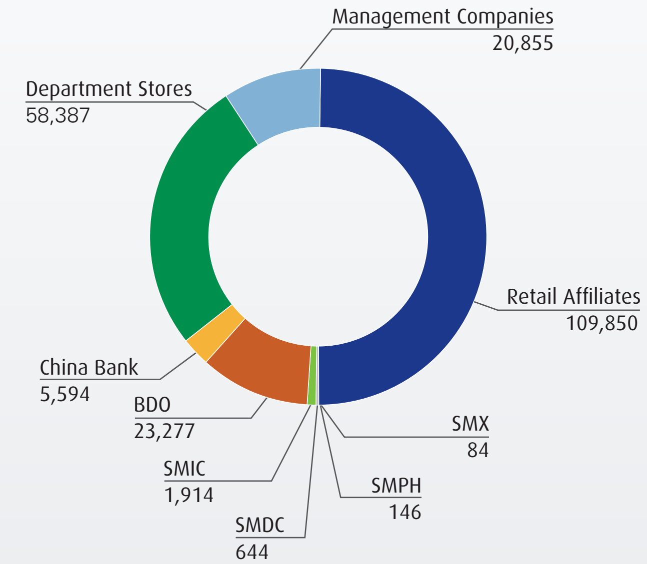
21%

DIVIDEND PAYOUT

30%

SM EMPLOYEES BREAKDOWN

220,751
Employees



AWARDS RECEIVED IN 2013

6
Corporate Governance Awards

4
Investor Relations Awards

2013 PERFORMANCE OF THE SM FOUNDATION, INC.

• EDUCATION

225 Graduates

1,300 Scholars

92 Honor Students

14 Classrooms Built

• LIVELIHOOD

15 Farmer Trainings

1,861 Training Graduates

• HEALTH

92 Medical Missions

90,034 Beneficiaries

• OPERATION TULONG EXPRESS

192,560
Kalinga (Relief) Packs Distributed

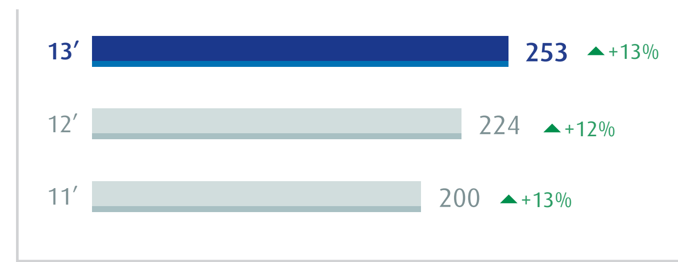
FAMILIES ASSISTED DURING AND AFTER CALAMITIES IN 2013

145,159

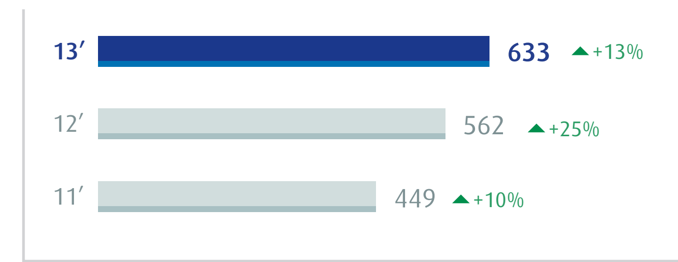
Financial Highlights

	2013	2012	2011
Balance Sheet Highlights (PHP billion)			
Total Assets	632.99	561.80	449.06
Current Assets	162.94	145.89	101.26
Non-current Assets	470.06	415.92	347.80
Current Liabilities	132.07	105.09	79.78
Non-current Liabilities	200.69	195.07	147.00
Total Liabilities	332.75	300.16	226.78
Stockholder’s Equity	300.24	261.64	222.29
Book Value per Share (PHP)	275.58	240.93	204.81
Income Statement Highlights (PHP billion)			
Revenues	253.29	223.88	199.92
Gross Profit	51.29	46.88	37.02
Other Income / (Expenses)	-7.63	-5.93	-1.33
Net Profit Before Tax	43.66	40.95	35.69
Net Income	27.45	24.67	21.22
Minority Interest	10.79	9.73	8.97
Basic EPS (PHP)	34.85	31.76	27.57
Financial Ratios (in percent)			
Current Ratio (x)	1.23 : 1	1.39 : 1	1.27 : 1
Return on Equity (%)	13.5%	14.3%	14.2%
Debt/Equity Ratio (%)	52 : 48	54 : 46	51 : 49
Net Debt	126.53	93.61	61.33
Net Debt/Equity Ratio (%)	37 : 63	33 : 67	28 : 72
Revenue Growth (%)	13.1%	12.0%	13.0%
Net Income Growth (%)	11.2%	16.3%	15.1%
Interest Coverage Ratio	5.24	5.54	5.05
EBITDA	60.80	54.93	44.21
EBITDA Margin (%)	24.0%	24.5%	22.1%
Net Margin (%)	10.8%	11.0%	10.6%
Revenue Profile (in percent)			
Retail Merchandising	73.3%	73.2%	76.0%
Property	22.0%	23.2%	20.9%
Banks	4.7%	3.6%	3.1%
Income Profile (in percent)			
Retail Merchandising	21.4%	28.1%	30.2%
Property	35.5%	37.5%	38.6%
Banks	43.1%	34.4%	31.2%

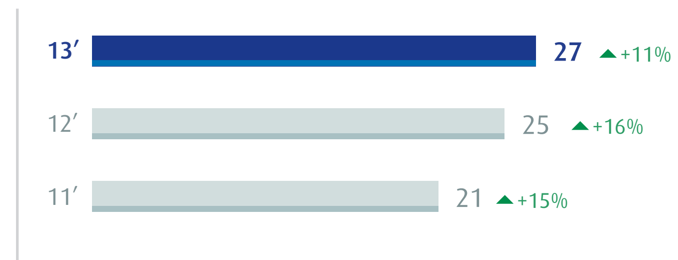
Revenues (PHP bn)



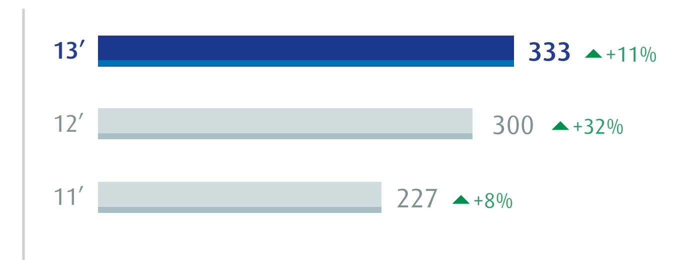
Assets (PHP bn)



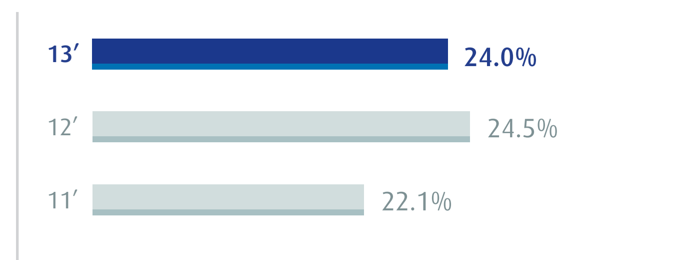
Net Income (PHP bn)



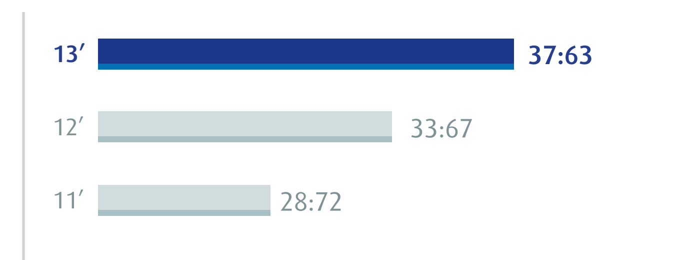
Liabilities (PHP bn)



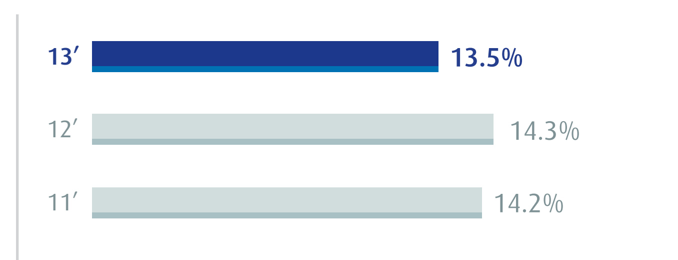
EBITDA Margins



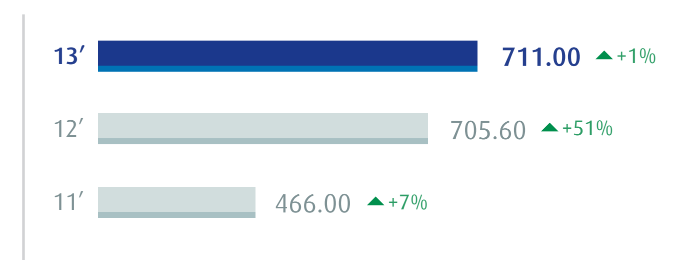
Net Debt to Equity



Return on Equity



Share Price (PHP)



MESSAGE TO SHAREHOLDERS

TERESITA SY-COSON Vice Chairperson
HENRY SY, SR. Chairman
HENRY T. SY, JR. Vice Chairperson

Governance continues to be a high priority for SM Investments and one of the reasons why so many leading financial institutions have placed their trust in the company. We are pleased that SM was again recognized by leading governance industry bodies for its efforts and was the recipient of numerous governance awards.

We are pleased to report that 2013 was a strong year for SM Investments, in which all of our businesses delivered solid financial performance and continued to position themselves for ongoing leadership of their respective sectors.

SM Investments delivered earnings growth of 11.2% to PHP27.4 billion on revenues of PHP253.3 billion that grew by 13.1%. We experienced growth in all our core businesses, with contributions of 43.1% of consolidated net earnings delivered by our two banks, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), 21.4% by SM Retail, Inc., our retail business, and 35.5% by SM Prime Holdings, Inc. (SM Prime), our newly formed property conglomerate.

In 2013, we undertook the merger of our mall, residential, commercial, hotel, convention center and leisure assets under SM Prime thereby creating one of the largest and strongest integrated property conglomerates in Southeast Asia. We are very positive about the long-term prospects of the Philippine property sector and this merger positions us to continue our growth and leadership, with the ability to undertake larger projects and build more integrated lifestyle city developments in the future. Central to the performance and strategy of SM Investments is our ability to create and leverage synergies across our businesses and this capability has been strengthened as a result of the merger.

SM Prime grew revenues by 4.5% to PHP59.8 billion and delivered net earnings of PHP16.3 billion. Net of PHP1.3 billion of one-off costs associated with the merger, combined property net income grew by 8.3%. Our network of malls was expanded to 48 in the Philippines, including the innovative and upscale SM Aura Premier mall and community center, our newly opened SM City BF Parañaque and the additional five malls in China.

Our retail businesses also delivered good revenue growth of 13.8% to PHP180.9 billion. A high level of natural disasters and an increased competitive environment in food retailing impacted retail net earnings, which fell 13.4% to PHP5.6 billion. With a broad customer base and wide product range made available in multiple retail formats, SM Retail, Inc. is well positioned to resume growth in earnings as well as in market share as it helps develop the organized retail sector across the country. During 2013 we formed a joint venture with community mall and supermarket operator WalterMart in order to enhance this growth strategy.

Meanwhile our banks continue to deliver solid performance from both underlying business growth as well as exceptional trading gains. BDO delivered record net income of PHP22.6 billion, growing 56.1%, while China Bank also recorded a net income of PHP5.1 billion, growing 1.7%. Both banks experienced strong deposit growth of 44.4% in BDO and 30.3% in China Bank, driven by strong retail deposit collections.

Governance continues to be a high priority for SM Investments and one of the reasons why so many leading financial institutions have placed their trust in the company. We are pleased that SM was again recognized by leading governance industry bodies for its efforts and was the recipient of numerous governance awards.

SM Investments remains committed to helping drive inclusive growth and contributing to the lives of Filipinos. We do this through the strong customer focus of all our businesses, our ability to generate employment and to act as a catalyst for growth in the communities we serve. We also prioritize sustainability and take steps to actively protect and enhance the environments in which we operate. Through the SM Foundation, our charitable arm, SM supports and invests in people by providing free college education, medical missions, livelihood training and disaster relief.

Looking forward, the Philippines continues to be an attractive growth market with considerable potential for long term development in all of our core business areas. With a strong board and management team commitment to long term development, we will continue to invest in our businesses and hold true to our core values of leadership, integrity, hard work, innovation, and sustainability, accountability. We remain highly positive about the future of the country and look forward to delivering continued strong business performance in 2014.

Finally, we would like to thank our board members for their generous support and you, our shareholders, for your ongoing trust and confidence in the company. Your continued support enables us to have confidence in investing in our businesses and in helping to deliver progress for the many millions of Filipinos whom it is our privilege to serve.

HENRY SY, SR.
Chairman

HENRY T. SY, JR.
Vice Chairperson

TERESITA SY-COSON
Vice Chairperson

PRESIDENT'S REPORT

In the years ahead, SM will constantly evolve to take advantage of the enormous opportunities that come with doing business in a fast-emerging economy. We will remain focused on our core businesses of retail, property, and banking with portfolio investments in high-growth sectors.

The Philippines is one of the fastest-growing economies in the region in 2013.

A rapidly emerging middle class and the record-high remittances from Filipinos overseas drove up consumer spending, which makes up three-fourths of the economic pie. The economy also got a boost from the business process outsourcing (BPO) industry, as the Philippines continued to be one of the world's most favored BPO destinations. These factors, which largely fueled the growth in retail, banking, and property development – the three core businesses of SM.

This enabled us to produce stronger full-year earnings for 2013. Our net income grew 11.2% to PHP27.4 billion from PHP24.7 billion for the same period last year. Revenue increased 13.1% to PHP253.3 billion from PHP223.9 billion in the previous year. Our EBITDA rose also by 10.7% to PHP60.8 billion, for an EBITDA margin of 24.0%. Our Annual Earnings per Share (EPS) stood at PHP34.85 or up 9.7% year-on-year.

INCOME SHARE

Of SM's consolidated net income, banks comprised the largest share, with a contribution of 43.1% boosted by extraordinary gains from trading. The property group, consisting of malls and real estate, accounted for 35.5%, while retail made up 21.4%.

BANKING

Sustaining its solid performance, BDO Unibank, Inc. (BDO) posted a net income of PHP22.6 billion from PHP14.5 billion in the same period last year. Its stellar growth of 56.1% came from a mix of strong fundamental growth and non-recurring gains from trading.

Loans and deposits fueled the 19.5% hike in net interest income to PHP43.2 billion. Further, non-interest income increased by 30.4% to PHP31.8 billion due to higher fee-based income and trading and foreign exchange gains. Operating expenses grew by a steady 9.5%.

Gross customer loans increased by 18.5% to Php911 billion on broad-based expansion across key markets. Total deposits rose by 44.4% to PHP1.3 trillion, as low-cost deposits as well as the inflow of maturing Special Deposit Accounts (SDA) funds from the Bangko Sentral ng Pilipinas (BSP) grew steadily.

For its part, China Banking Corporation recorded a consolidated net income of PHP5.1 billion in 2013 which translate to return on equity of 11.4%.

PROPERTY

Our property development arm, SM Prime Holdings, Inc. (SM Prime), reported combined net earnings of PHP16.3 billion in 2013.

A one-time integration cost of PHP1.3 billion tempered the 8.3% growth in its recurring net income of PHP17.5 billion after the consolidation of SM's property assets into SM Prime.

Consolidated revenues rose 4.5% to PHP59.8 billion from PHP57.2 billion a year ago. Rental revenues accounted for 53.9% of the total, and grew by 11.2% to PHP32.20 billion from PHP28.95 billion in 2012.

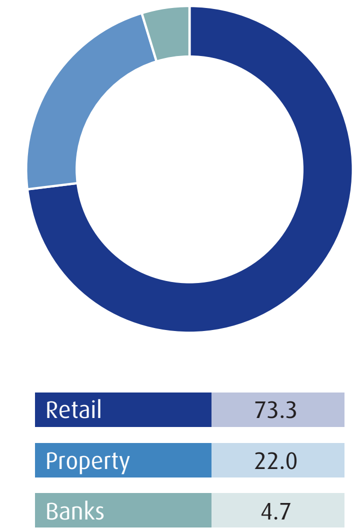
The increase was primarily due to the full-year effect of new malls opened in 2012, namely SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier, and the opening in 2013 of SM Aura Premier. Excluding the new malls and expansions, rental revenues grew 7.0%. SM Prime's five shopping malls in China also sustained their profit growth, with net income amounting to PHP958.2 million.

SM Prime has ended the year with 48 malls in the Philippines with a total gross floor area of 6.2 million sqm. In 2013, SM Prime unveiled SM Aura Premier in Taguig City and SM BF Parañaque in Parañaque City.

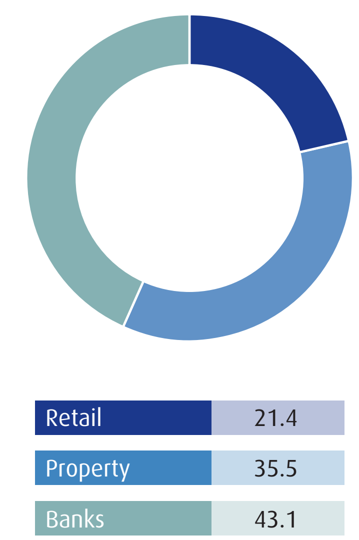
SM Prime's China malls have a combined gross floor area of 800,000 sqm. SM City Zibo and SM City Tianjin will open in 2014 and 2015, respectively. Spanning 540,000 sqm, SM City Tianjin will be the largest mall in SM's entire China portfolio.

SM Prime also generated real estate condominium sales of PHP20.78 billion in 2013. The three projects it launched in 2013, namely Grass Phase Two, Shore and Trees, are expected to contribute significantly to revenues starting in 2014. Gross margins improved to 42.6% versus 38.1% in 2012.

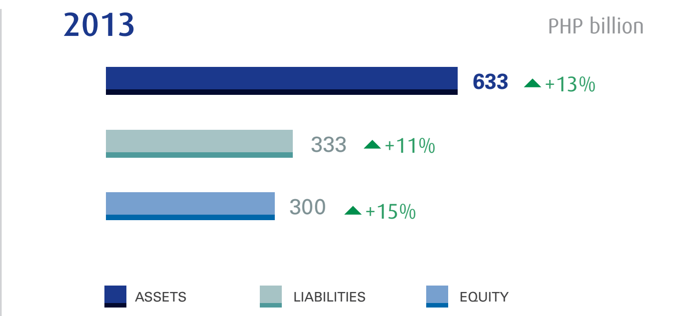
2013 Revenue Profile

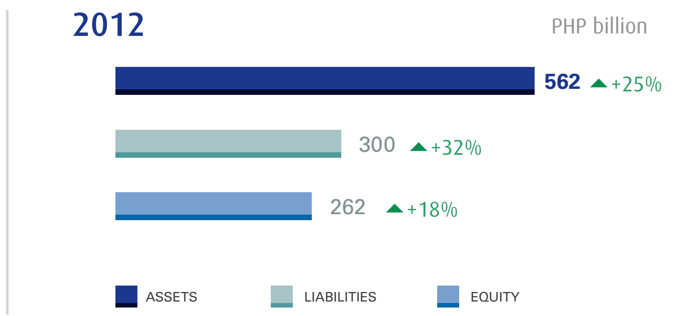


2013 Income Profile



PRESIDENT'S REPORT





Consolidated operating expenses increased by 12.1% to PHP23.7 billion in 2013 while consolidated costs of real estate was at PHP11.9 billion, a 14.7% decrease from PHP14.0 billion in 2012.

RETAIL OPERATIONS

SM Retail reported a net income of PHP5.6 billion in 2013. Sales grew 13.8% to PHP180.9 billion and its net margin stood at 3.1%. As of the end of 2013, SM Retail had a total of 241 stores.

The company rebranded its SM Department stores into "The SM Store". This signified its business commitment to being "the fashion store for all" amid the rapidly changing fashion trends, highly competitive local and global labels, and increased purchasing power. SM Retail will roll out new store designs and layouts to accommodate more brands and deliver an enhanced shopping experience. The company also embarked on imaging campaigns aimed at boosting brand equity with a rising generation of higher spending, fashion conscious Filipinos.

With the expansion of its store network, the Food Retail Group continued to refurbish and renovate its stores, introducing layouts designed for customers to find products even more easily.

The Food Retail Group also continued to widen the range of consumer choices by continually updating its product assortment. Closer collaboration with sister-company China Bank Savings led to the increase presence of the savings bank in Savemore stores.

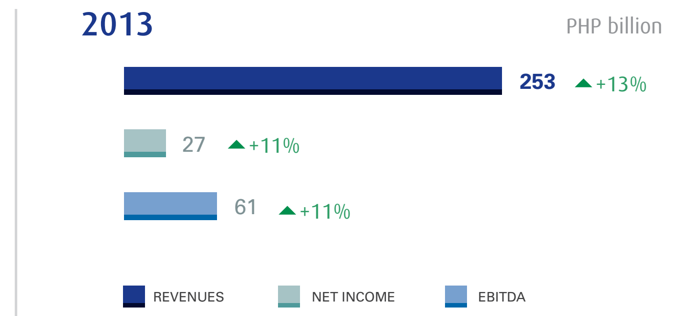
BALANCE SHEET

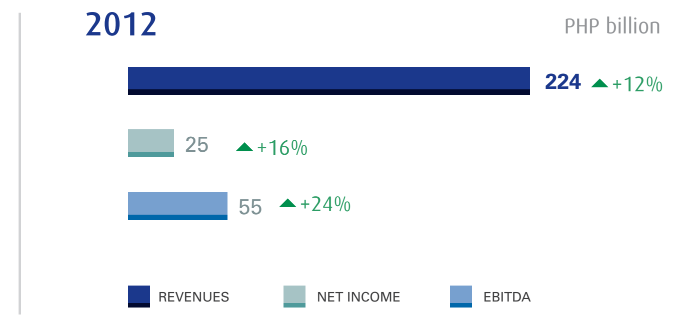
SM's total assets increased 12.7% year-on-year to PHP633.0 billion. We continue to maintain a very healthy balance sheet with a gearing ratio of only 37% net debt to 63% equity. In 2013, we have undertaken initiatives that will help broaden our investor base and our portfolio of investments.

In July 2013, SM, through appointed depositary, The Bank of New York Mellon, launched the American Depositary Receipt (ADR) Level 1 program. Under the program, ADR securities issued in the US representing SM common shares can be traded over-the-counter with one SM ADR representing 0.5 common shares of SM. This facility allows US investors to trade SM common shares in their own time zone and to settle transactions locally, broadening SM's shareholder base and enhancing SM's international visibility.

On the investment front, we acquired 90% equity of five prime Grade A office buildings and land from CPI BV which has a gross leasable area of 147,000 sqm located within the PEZA certified IT Park in Bonifacio Global City. Clients and tenants of the Net Group, the largest office developer in the Global City, range from large multinational firms to worldwide support services across various industries and sectors.

SM also announced the acquisition of 34% equity of CityMall Commercial Center, Inc. The remaining 66% is held by DoubleDragon Properties Corp., a 50/50 joint venture between the founders of the Mang Inasal and the Jollibee Groups. CityMall plans to construct 100 community malls initially in the Visayas and Mindanao regions.





Share Price Chart (January to December 2013)

Source: Philippine Stock Exchange

MOVING FORWARD

In the years ahead, SM will constantly evolve to take advantage of the enormous opportunities that come with doing business in a fast-emerging economy. We will remain focused on our core businesses of retail, property, and banking with portfolio investments in high-growth sectors.

We are confident that we can meet greater competition, particularly as the ASEAN market moves towards greater economic integration by 2015.

Yet to maintain our industry leadership, we must continue to innovate and embrace dynamism, which have become the hallmark of our business since 1958. We must always be a step ahead in meeting the ever evolving needs of our markets.

It is in this spirit that we express our deep pride in the SM team for bringing us to where we are, and our gratitude to you, our shareholders and partners, for your unwavering support. We hope you share our excitement about our company's performance and the way in which we are building a brighter and more dynamic future for Filipinos.

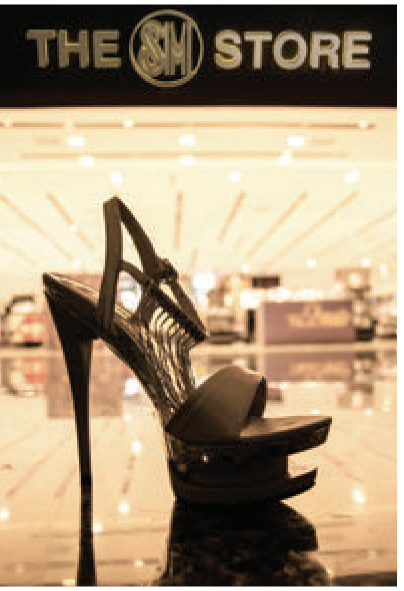
HARLEY T. SY
President

Retail Operations

- Sales grew by **14%** amounting to **PHP180.9 billion**
- Net Income amounted to **PHP5.6** billion
- **21** New Stores
- **241** Total Number of Stores

Retail Operations

SM's strong market presence in the country is deeply rooted in retail. Today, SM Retail is a significant player in fashion through The SM Store and in food through three formats: SM Supermarket, SM Hypermarket and Savemore.



Year in Review: The SM Stores

In a year marked with a mixed bag of favorable and challenging events — from the growing purchasing power of Filipino consumers to the devastation brought about by super typhoons — the non-food retail business of SM managed to perform steadily in 2013.

The business rebranded its SM Department Stores to signify its commitment to being "the fashion store for all." Now known as "The SM Store," it promises to roll out fresh concepts and designs to keep up with rapidly changing fashion trends, the growing appetite from the public, the increased competition from local and global labels, and the expanding purchasing power of consumers. In line with the rebranding, the business plans to accommodate more brands and deliver an enhanced shopping experience to more customers.

STEP UP

Such a promise was unveiled in The SM Store which opened in May 2013 at the SM Aura Premier in Bonifacio Global City. Point Design, a New York-based firm, creatively designed the three-level SM Aura store which occupies 5,590 sqm of space, representing the next generation of SM stores that showcase well-loved brands in a sophisticated shopping environment. No less than Sarah Jessica Parker launched the occasion.

Following this grand launch was the newly opened SM City BF Parañaque which offers an equally trendy SM Store as one of its anchor tenants.

FASHION FORWARD

In 2013, The SM Store also embarked on imaging campaigns aimed at boosting brand equity with a rising generation of higher-spending, fashion-conscious Filipinos through celebrity endorsers, both local and international.

Global fashion icons who have become synonymous with The SM Store brand include the likes of Sarah Jessica Parker and top British model David Gandy. Local celebrities like Anne Curtis, KC Concepcion, Sam Milby, Luis Manzano, Xian Lim and Georgina Wilson, as well as young endorsers Julia Barretto, Daniel Padilla and Kathryn Bernardo also became part of The SM Store's rebranding campaign. Media icon Kris Aquino was a brand ambassador for The SM Store's Christmas Campaign where she also graced the opening of The SM Store in SM City BF Parañaque.

SALES DRIVERS

In terms of sales, the Shoes group, Sports Central, and Signature Lines drove The SM Store's growth. Major contributors to its revenues were the Shoes group, followed by Ladies' Fashion, Men's Fashion, and Home.

A sign that local consumers are becoming more fashion conscious due to their exposure to international trends and deepening pockets, shoes and bags were the top-selling merchandise in 2013.

BEYOND THE STORE

With 48 stores nationwide and a plan to open 16 new stores in the next four years, The SM Store is also strategically positioned to cater to society's needs beyond fashion and consumer goods.

In November 2013, the group launched the "Share A Toy" project in partnership with SM Foundation and in cooperation with Toy Kingdom and the Department of Social Welfare and Development (DSWD).

Through the project, SM shoppers gained an opportunity to share their blessings with less fortunate kids by buying them new toys. A total of 35,000 toys, both old and new, were distributed to beneficiaries in SM Stores nationwide.

In support of SM's environmental stewardship, The SM Store also actively adopted energy-efficiency measures in their business operations. In 2013, The SM Store in Cubao and Quiapo became first-time awardees of the Don Emilio Abello Energy Efficiency Award for reducing their carbon footprint and generating energy savings in their store operations, benefitting both the community and the environment.

THE SM STORES

48
Current Number of Stores

TOTAL SELLING AREA

417,526 sqm

* Figures as of December 2013

TOP SELLING MERCHANDISE

- Shoes
- Bags
- Men's and Ladies' Wear
- Health and Beauty

SPECIAL FEATURE

Scaling Up: The SM Store at Aura

Sarah Jessica Parker graces the opening of The SM Store Aura

A popular fashion destination is scaling new heights, transforming into a more stylish, upmarket and geared towards more affluent, fashion-savvy shoppers.

Sporting a sleek new name, "The SM Store" at SM Aura is the next generation of SM Department Stores that showcase well-loved brands in a sophisticated shopping environment. The first of these upscale stores opened in May 2013 at SM Aura Premier, Bonifacio Global City in Taguig, where world-class shopping, entertainment, and vibrant commerce also redefine standards.

LEVELING UP

The 5,590-sqm, three-level store at SM Aura is a notch above the well-loved SM stores. Designed by Point Design, a New York-based firm, The SM Store Aura has elements working together for a bolder, more innovative approach to retail environments. It's what "less is more" is all about: an emphasis on lighting and art instead of the usual colorful graphics and creative ceiling and wall treatments.

The SM Store at SM Aura

Women's bags at SM Aura

Innovating space, The SM Store highlights every merchandise and emphasizes its individual and collective glamour and luxury. The SM Store Aura offers "worlds" within a store – each category is like a boutique, and merchandising fixtures fit every category there is.

A fresh, upmarket vibe is also added to the key elements of the store, such as the entrance, atrium, and cashier counters. The entrances are designed with a unique form that draws shoppers in. The atrium, an asymmetrical beauty, features a set of criss-crossing escalators and acts as a visual and functional focal point.

One trusted feature of The SM Store stays: the "SM Advantage", a loyalty card that offers a collection of members-only benefits when purchasing fashion gear, houseware and gadgets.

BEYOND THE FACADE

Rebranding The SM Store, however, goes beyond the surface.

SM Retail, Inc. has also embarked on imaging campaigns that optimize brand equity with a higher-spending, fashion-forward market.

Celebrity endorsers, both local and international, embody this class and fashion taste that's on a par with the rest of the world. Hollywood style goddess Sarah Jessica Parker visited SM Aura in May 2013 to grace its grand opening, while top British model David Gandy became one of the highlights of the Philippine Fashion Week as the ambassador of SM Men's Fashion. Local celebrities promoting the brand include Anne Curtis, KC Concepcion, Sam Milby, and Luis Manzano all strutting fashion wearables ranging from tailored separates to accessories.

CENTER OF FASHION

With 48 stores in key locations around the country, The SM Store has become part of the fashion journey of generations of Filipinos. Like a classic ensemble, The SM Store is given new touches here and there, but never goes out of style.

NUMBER OF PIECES OF ACCESSORIES SOLD
33.8 million

NUMBER OF BAGS SOLD
3.7 million

PAIRS OF FOOTWEAR SOLD
23.8 million

NUMBER OF CLOTHES SOLD
70.8 million

* Figures represent items sold in all The SM Stores as of 2013

Year in Review: SM Food Group

FOOD RETAIL GROUP
SALES GROWTH

PHP9.6 bn in 2013
PHP89.3 bn in 2012
8% Growth

Riding on the growing appetite of Filipino consumers and the evolving demands of the market, the SM Food Retail Group (SMFRG) – an integral component of SM's retail business – sustained its robust performance and store network growth in 2013.

The group chalked up an 8% sales growth to PHP96.6 billion from the previous year, even amid a string of natural calamities that hit the country and affected the retail industry.

The year saw the expansion of the Group's merchandise offerings and makeovers in the overall ambience and layout of SM Supermarket, Savemore, and SM Hypermarket. These improvements were geared toward satisfying the needs and aspirations of mainstream shoppers, as well as broadening SM's appeal to the other customer segments.

STORE OPENINGS

A total of 21 stores were opened in 2013: 15 were Savemore stores, two were SM Hypermarkets, two were SM Supermarkets, and two were WalterMart stores.

Among the milestones in 2013 was the opening of SM Supermarket Aura that features a refreshing concept: the new urban market. From its contemporary interior design, easy layout and world-class services, to its extensive range of merchandise from basic necessities to offerings from high-end specialties and purveyors, SM Supermarket Aura serves as the aspirational template for succeeding new stores and renovations.

SMFRG also created new selling spaces totaling 45,371 sqm, of which Metro Manila accounted for 58.19%. As market concentration continues to become heavier in the metropolis, the food retail division will focus its expansion on provincial areas in Luzon, Visayas, and Mindanao.

MORE OFFERINGS

In terms of merchandise, the group continued to refresh its assortment by adding international products as well as local Filipino favorites while maintaining best-sellers and basic necessities of its shoppers. These additions enabled families from Manila and foreigners alike to enjoy different regional delicacies under one roof. SMFRG also boosted "food-to-go" and "ready-to-eat" products to continue giving consumers easier meal and snack options.

CONVENIENT BANKING WHILE SHOPPING

To improve its one-stop-shop services, the SM Food Retail entered into a partnership with China Bank Savings (CBS) to provide full banking services any day of the week. One full CBS branch was opened at Savemore Talisay, while 12 mini-branches were followed at CBS Savemore Acacia, Amang Rodriguez, Anonas, Araneta, Avenida, A. Venue, Jackman, Nepa Q, Nova Plaza, Pedro Gil, and Solano Taft giving SM customers more flexibility with managing their finances.

DISASTER RESPONSE

The nature of SMFRG's business as a food retailer and its vast presence with over 170 stores nationwide has put it in a unique position to make a difference.

In recent years, SMFRG has served as the hub of SM's efforts to respond to various local disasters. In such cases, SM Food Retail prioritizes the well-being of its shoppers, its employees, as well as its surrounding communities by serving as a place of refuge for affected individuals, the source of emergency food and non-food items, and the stage for SM's relief operations.

Through its strong and cooperative alliances with trade suppliers and local communities, SMFRG is able to follow its emergency response protocol to quickly replenish goods, especially emergency items and other essentials. SM shoppers are also given a venue to aid calamity victims through the "SM Donate-a-Bag".

These efforts were key in strengthening SMFRG's relationship with the community making it more than just a store but an active welcome member of the community.

The Group is also at the forefront of SM's staunch advocacy on environment protection and preservation. Among others, SMFRG uses six distribution centers among others, to minimize its carbon footprint by carefully planning the frequency of trips of its delivery vehicles and efficiently loading goods and supplies.

In 2007, SMFRG introduced the SM Greenbag, the first reusable bag in the country. Two years after, the group launched the Join the M.O.B. (MyOwnBag) campaign which encourages shoppers to bring their own reusable bags in exchange for SM Advantage reward points. Over the last seven years, the program has successfully rewarded 40 million points to shoppers and saved 60,772,350 plastic bags in the process.

As the retail food market further evolves, the SMFRG will continue to expand its offering, improve its services, and extend its reach to more shoppers in more locations to sustain the dynamism of its business while looking after the greater communities that it serves.

SM FOOD RETAIL STORES
AS OF DECEMBER 2013

193
Total Number of Stores Nationwide composed of
39 SM Supermarkets
93 Savemore Stores
39 SM Hypermarkets
22 WalterMart Stores

TOTAL FOOD RETAIL
SELLING AREA
584,318 sqm

ITEMS SOLD

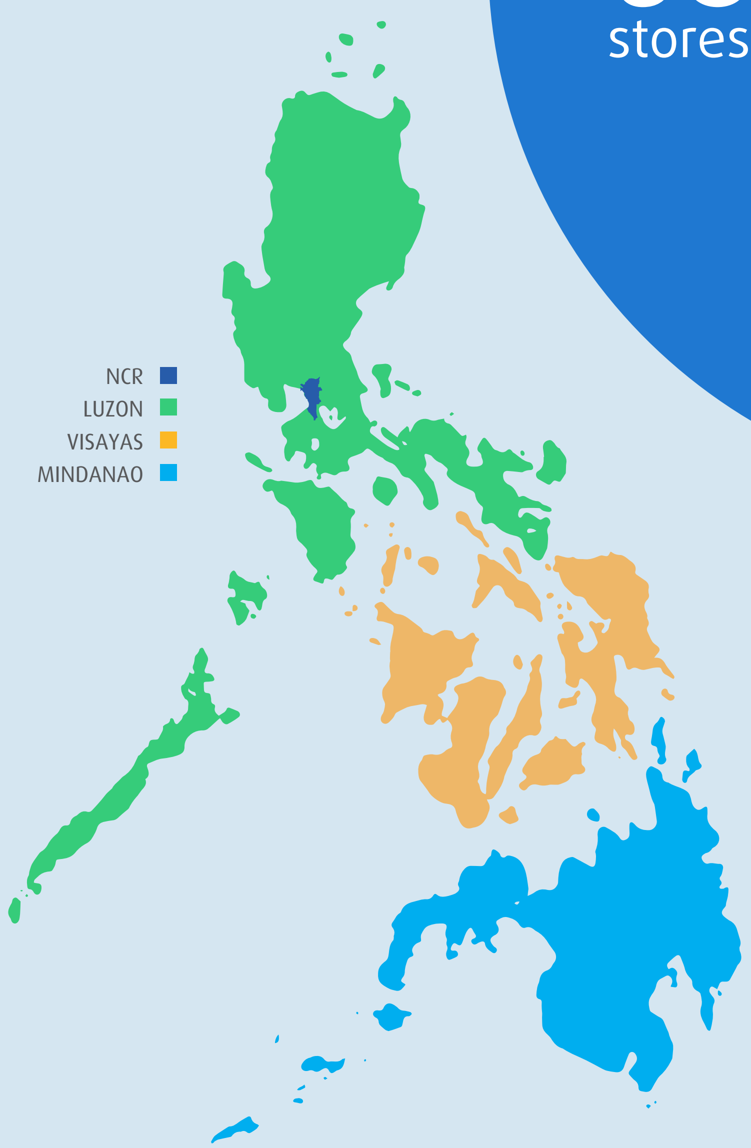
Bottles of Water Sold **34** million
Pounds of Chicken, Meat and Fish Sold **110** million

CHINA BANK SAVINGS ALIGNED
WITH SAVEMORE STORES
12
CBS Branches

MY OWN BAG
ENVIRONMENTAL CAMPAIGN
40 million SM Advantage points rewarded to shoppers
Prevented the Release of **60.8** million Plastic Bags

SM Retail Stores Philippines

471,879
Total NCR Selling Area (in sqm)



98 stores

NATIONAL CAPITAL REGION (NCR)

SM Supermarket

North Edsa	Manila	Novaliches 2
Sta. Mesa	Makati	Masinag
Megamall	San Lazaro	Megamall A
Southmall	Marikina 2	Aura
Fairview	Cubao	Bf Parañaque

SM Hypermarket

Sucat	Muntinlupa	Eton	Road
Bicutan	Mandaluyong	North Harbour	East Service Road
Valenzuela	Fairview	Adriatico	Monumento
Mall Of Asia	Makati	Cubao	Jazz Residences
North Edsa	Las Piñas	Sucat-Lopez	Fti, Taguig
Pasig	Novaliches	Alabang Zapote	

Savemore

Marikina 1	Novaliches 1	Araneta	Avenida
Festival Mall	Visayas	Sta. Ana	Md Fuente
Savers Square	Nepa	Shoe Avenue	Zabarte
Nagtahan	Pasong Tamo	Pedro Gil	Acacia Est
Mezza	Amang Rodriguez	Kanlaon QC	Project 8 QC
P. Tuazon	Malabon	A. Venue	Marulas
Del Monte	Cartimar	Laong Laan 2	Free Choice Pasig
Taft	Berkley	Nova Plaza	Star J Malabon
Broadway	Muntinlupa	Baclaran	
Anonas	Jackman	Camarin	

The SM Store

SM Makati	SM Southmall	SM Bicutan
SM Megamall	SM San Lazaro	SM Sucat
SM North Edsa	SM Manila	SM Aura
SM Cubao	SM Harrison	SM Quiapo
SM Fairview	SM BF Parañaque	
SM Mall of Asia	SM Novaliches	
SM Marikina	SM Sta. Mesa	

WalterMart

E. Rodriguez	Sucat	Makati
North Edsa	Bicutan	

104 stores

LUZON

SM Supermarket

Bacoor	Batangas	Tarlac
Pampanga	Sta. Rosa	San Pablo
Lucena	Lipa	Calamba
Baguio	Naga	Olongapo
Dasmariñas	Rosario	San Fernando

SM Hypermarket

Marilao	Rosales	Pampanga	Cainta
Molino	Baliwag	Imus	Heroes Hall Laoag
Clark	Batangas	Mktmall Dsm	Antipolo
Taytay			

Savemore

Angono	Ilagan	Das Salitran	Ardi Cainta
Morong	Malhacan	Lgz Slvrscrn	Tm Centerpoint
Tanay	Sta. Maria	Sorsogon	Sta. Maria Ilocos
Amigo	Apalit	Malinta	Arcc Bacoor
Mega Center	Biñan	San Jose Ne	Pili, Camsur
Solano	Tuguegarao	Lag Parian	San Ildefonso
Mendez	Balibago	Lb Centro	Lumina Plus, Imus
Met Legazpi	Iba, Zambales	Garden Sta. Rosa	Meridian, Tagaytay
Baliwag	Ilagan2	Kawit Cvte	
Zapote	Laoag 1	Santiago	

The SM Store

SM Bacoor	SM Marilao	SM Calamba	SM Rosales
SM Clark	SM Baliwag	SM San Pablo	SM Naga
SM Pampanga	SM Lucena	SM Baguio	SM San Fernando
SM Batangas	SM Olongapo	SM Rosario	
SM Sta. Rosa	SM Dasmariñas	SM Tarlac	
SM Lipa	SM Taytay	SM Masinag	

WalterMart

Dasmariñas	Los Baños	San Fernando
Sta. Rosa	Plaridel	Makiling
Calamba	Gapan	Guiguinto
Imus	Sta. Cruz	Trese Martires
Carmona	Sta. Maria	Cabuyao
Gen. Trias	Tanauan	

370,059
Total Luzon Selling Area (in sqm)

100,390
Total Visayas Selling Area (in sqm)

26 stores

VISAYAS

SM Supermarket
Cebu
Mandurriao
Delgado
Bacolod
Consolacion

SM Hypermarket
Iloilo
Cebu
Cebu-Jmall
Cadiz

Savemore
Jaro 1
Mactan
Elizabeth Mall
Jaro 2
Parkmall
Libertad
Bacolod East
Ceb Canduman
Ceb Maguikay
Ceb Basak
Lap Maribago
Talisay

The SM Store
SM Cebu
SM Bacolod
SM Iloilo
SM Consolacion
SM Delgado

59,516
Total Mindanao Selling Area (in sqm)

13 stores

MINDANAO

SM Supermarket
Davao
Cagayan
Gensan
Lanang Davao

Savemore
CDO - Agora
CDO - Capistrano
Kauswagan
Dav Bangkal
Bajada

The SM Store
SM Davao
SM Lanang
SM General Santos
SM Cagayan de Oro

Property

Publicly listed SM Prime Holdings, Inc. (SM Prime) is now the largest integrated property company in the Philippines and remains committed to providing world-class, and sustainable development projects with innovative designs and architecture.

Property

- Revenues grew by 4.5% to PHP59.8 billion
- 2013 net income PHP16.3 billion
- 48 malls in the Philippines and 5 in China
- 21 residential projects (completed and ongoing)
- 7 office buildings
- 3 conventions and 2 exhibit halls

PROPERTY



Malls

48 Malls in the Philippines
5 Malls in China
6.2 million sqm Total Gross Floor Area



Residences

21 Condominium Projects
63,892 Units (Total)



Offices

7 Office Buildings
256,697 sqm Total Gross Floor Area
*Completed buildings only as of FY 2013

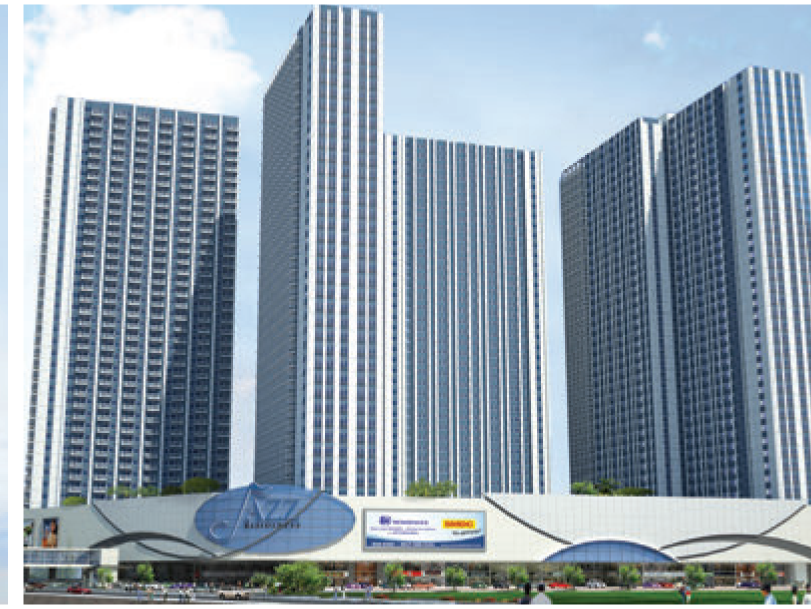

Hotels and Convention Centers

4 Hotels
1,015 Hotel Rooms
3 Convention Centers and 2 Exhibit Halls

Radisson Blu

TwoE-com

SM Aura



Jazz Residences

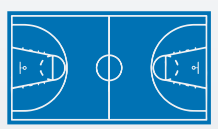
PHILIPPINE MALLS
GROSS FLOOR AREA

6.2 million sqm

Equivalent to

14,095

International-Size Basketball Courts



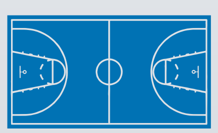
CHINA MALLS
GROSS FLOOR AREA

0.8 million sqm

Equivalent to

1,819

International-Size Basketball Courts



Year in Review: Property Group

2013 was a transformational year for SM Prime Holdings, Inc. (SM Prime) as it became one of the largest property developers in Southeast Asia.

This came after the SM Group consolidated all its property companies and real estate assets under SM Prime. The reorganization, first announced in May 2013, paved the way for the delisting of shares of SM Development Corp. and Highlands Prime Inc., and the merger of SM Land and SM Prime (with the latter as the surviving entity), and the consolidation of the SM group's real estate assets and shares in property companies into SM Prime. On October 10, 2013, the Securities and Exchange Commission (SEC) approved the reorganization.

The landmark deal was awarded the "Most Innovative Deal" in 2013 by regional financial magazine Alpha Southeast Asia.

Despite a busy year of consolidation, SM Prime sustained the dynamism of its five core businesses: malls, residences, commercial properties, hotels and convention centers, and resorts and events destination.

MALLS

Malls continued to be the main driver of SM Prime's revenue growth. The property group has 48 malls in the country, with a total gross floor area of 6.2 million square meters.

In 2013, SM's property group marked a milestone when it opened the SM Aura Premier in Bonifacio Global City in Taguig City.

Mirroring the growing aspirations of the global Filipino, SM Prime embarked on this first venture into upscale mall development. With a gross floor area (GFA) of 234,892 sqm, SM Aura features a mixed-use development incorporating a civic center with five retail or trade levels and an office tower.

SM Prime also operates five malls in China with a total gross floor area of 794,601 sqm. It is slated to open SM City Zibo in 2014 with a GFA of 150,000 sqm and SM City Tianjin in 2015, which spans 540,000 sqm and will be the largest mall in SM's entire China portfolio.

Inspired by the success of its mixed-used development in the Mall of Asia Complex in Pasay City, SM Prime is building more "lifestyle cities" in the Philippines and is introducing the concept in China. It is currently developing SM Seaside City Cebu, which will become its fourth-largest mall in the Philippines.

RESIDENCES

SM Prime also launched three projects in 2013, namely: Grass Phase Two, Shore and Trees. These projects, which are expected to contribute significantly to its revenues starting in 2014, cater to local buyers who want to strike a balance between affordability and convenience.

COMMERCIAL PROPERTIES

SM Prime also reported double-digit rental revenues from TwoE-com, which began operations in mid-2012 and is now 98%-occupied. Construction of ThreeE-com is ongoing with plans to expand the E-com complex up to five buildings.

BEYOND PROPERTY

Part of SM Prime's core strategies as a property developer is building disaster-resilient structures to ensure the safety of its customers and the communities where it operates.

In 2013, the group accelerated this commitment to disaster-resilient and "green buildings." Its newest offering, the SM Aura Premier in Taguig City, aims to be one of the first civic centers in the country to be under the US Green Building Council Leadership in Energy and Environmental Design (LEED) program, an internationally recognized green building program established in 135 countries. The renovation of SM City Baguio is also being considered for LEED certification.

SM Prime has also joined domestic and international efforts to rebuild areas devastated by super Typhoon Yolanda (Haiyan) in December 2013. It has committed to build 1,000 houses for the typhoon survivors in the Visayas and started building the SM Cares Village in Brgy. Polambato, Bogo, Cebu to benefit the 200 families who lost their homes. It is also setting up SM Cares Villages in Concepcion, Iloilo; Antique, Tacloban City, Leyte; and Guiuan, Samar.

Part of SM Prime's core strategies as a property developer is building disaster-resilient structures to ensure the safety of its customers and the communities where it operates.

NUMBER OF RESIDENTIAL UNITS
MADE AVAILABLE SINCE 2005

63,892 units

SPECIAL FEATURE

Setting the Property Benchmark in the Philippines

The corporate re-engineering was considered a landmark deal that won SM the "Most Innovative Deal" Award from financial magazine Alpha Southeast Asia.

In more than five decades, SM has grown from being a small shoe store operation in 1958 to become the Philippines' leading conglomerate. In October 2013, SM added another title to its name, as it became the owner of one of the largest property developers in Southeast Asia.

"The publicly listed and enlarged SM Prime Holdings, Inc. (SM PRIME) will be in a very strategic position to take the business up to its next phase of growth," said SM Prime incoming Chairman Henry T. Sy, Jr.

Catapulting SM Prime as one of Southeast Asia's largest property developers was the consolidation of SM's real estate and property assets, with offerings spanning across diverse sectors of mall, office and residential developments, as well as hotels and convention centers.

The corporate re-engineering was considered a landmark deal that won SM the "Most Innovative Deal" Award from financial magazine Alpha Southeast Asia.

SCALE AND SYNERGY

The consolidation expanded the market capitalization of SM Prime to PHP591 billion, based on May 30, 2013 closing prices, and consolidated total assets PHP284.1 billion.

While size matters, SM has embarked on this corporate reengineering exercise largely for two reasons: scale and synergy.

The consolidation creates an integrated property company that can flex a bigger financial muscle to undertake much larger projects. This will also make the group more attractive to big investors. Buying into one corporate vehicle now affords them the opportunity to invest in SM's diversified portfolio that includes the biggest retail and mall chain in the country, the largest bank in terms of assets, and one of the most aggressive real estate property developers, to name a few. Aside from its three core businesses, SM also has portfolio investments interests in mining, infrastructure, gaming, and geothermal energy development.

The consolidation also allows various property units of SM to benefit from economies of scale and a stronger synergy. This is in line with SM's pioneering innovations such as the "lifestyle city," a mixed-used development that combines some of its retail, residential, office and hotel businesses under one roof.

This formula for dynamism has already been proven successful in the SM Mall of Asia complex in Pasay City and is also taking place in Park Inn by Radisson in Lanang, Davao, which sits beside the SM Lanang mall and the SMX Convention Center. SM is also building progressive malls in China, the world's second-biggest economy, where it currently operates five malls.

MEETING CHALLENGES

SM has long mulled the merger of its property units. It mandated JP Morgan Chase & Co., Macquarie Group Ltd. and BDO Unibank Inc. to study the consolidation.

2013, however, proved to be the right time. The merger will enable SM to cast its net wider on opportunities that could arise from the ASEAN economic cooperation and integration by 2015.

While the threat of bigger and more mature competition looms large, SM is well positioned to ride on the growth as it continues to build more malls and properties, as well as intensifying its land banking activities in the Philippines and China, the two fastest-growing economies in the region and among the fastest in the world.

With a solid track record of over 56 years and a nationally recognized brand name, SM is destined to become an even more formidable player in the years ahead.

Financial magazine Alpha Southeast Asia cites SM for "Most Innovative Deal" for the merger of its property assets.

SM Prime's property merger announcement

ALPHA SOUTHEAST ASIA'S

Most Innovative Deal Award

New Malls in 2013

SM AURA BRINGS THE WORLD TO THE FILIPINO

On May 17, 2013, SM Aura Premier opened its doors to the public as SM Prime Holdings, Inc.'s first venture into upscale mall development. With a total gross floor area (GFA) of 234,892 sqm, it is built, not only as a prime shopping destination, but also a showcase of innovation in the vibrant "micro-city" of the Taguig Central Business District (CBD).

SM Aura has a mixed-use development that incorporates a civic center with five retail/trade halls levels and an office tower. It offers the multi-level Sky Park, al fresco bars and restaurants, sculpture and botanical gardens, a 1,100-seat performance hall, and the 250-seat Chapel of San Pedro Calungsod.

Miami-based architectural firm Arquitectonica designed this high-end lifestyle mall inspired by the elements of nature. Aside from being a work of art, SM Aura also elevates environmental responsibility to new levels. As the first civic center certified Gold by the US Green Building Council Leadership in Energy and Environmental Design (LEED) standards, SM Aura boasts of sustainable structures, setting new standards in high-performance technologies using less energy, consuming less water, and leaving a smaller footprint on the city's resources.

Beyond the first-rate design and architecture and sustainable operations, SM Aura also symbolizes Filipinos' aspirations to become world-class. This was the reason it chose Hollywood style icon Sarah Jessica Parker, no less than an epitome of modern luxury, to lead its formal unveiling. It also tapped leading international male model David Gandy to grace the catwalk at the Philippine Fashion Week 2013 at SM Aura.

On the retail front, the mall brings in global brands like fashion labels Suite Blanco from Spain, Stefanel from Italy, BB Dakota from the United States, J. Lindeberg from Sweden, and dining spots like Paul Boulangerie from France, NBA Café from the US, and Todd English Food Hall.

It also offers familiar labels such as Forever 21 and Uniqlo, as well as the first of next-generation SM Stores, SM Supermarket, Toy Kingdom, Baby Company, and SM Appliance Center.

SM Aura is also a show of support for Taguig's bid to be a world-class city, with high-end residential buildings, international schools, technologically advanced medical centers, and other attractions catering to its diverse community. It is poised to flourish as a state-of-the-art civic center, and as a top destination for concept and flagship stores, trusted local brands, leading dining and entertainment trends, and exuberant city living.

With SM Aura, the hardworking, globetrotting Filipino will find the inspiration to dream big. At SM Aura, SM Prime is bringing the world to every Filipino's doorstep.

SM BF PARAÑAQUE LEVELS UP

SM BF Parañaque opened on November 29, 2013 as one of the more upscale shopping and entertainment SM addresses in the Philippines.

Spanning 120,200 sqm and located on a prime site along Dr. A. Santos (formerly Sucat Road) and President's Avenue, SM BF Parañaque is SM Prime Holdings Inc.'s 48th mall in the country and the fifth in the South Metro area after SM Southmall, SM City Sucat, SM City Bicutan, and SM Center Las Piñas. It sits in a leading residential and commercial area known for upscale establishments, subdivisions, and schools.

SM BF Parañaque is the first to offer four Director's Club cinemas equipped with electronic recliner (Lazyboy type) seats that can accommodate up to 200 moviegoers. Including the Director's Club cinemas, it also houses two premier cinemas with 180 seats each, for a total of six digital cinemas.

The mall reflects SM Prime's continuing efforts to better serve Parañaque City's various needs, including a more upscale offering.

Fashion brands include Mango, Uniqlo, Giordano, and Plains and Prints. There are also mainstay SM brands, with the SM Store, SM Supermarket, Our Home, SM Appliance Center, Ace Hardware, and Watson's catering to SM's loyal clientele over the decades. The SM Store is particularly rebranded for a rising breed of fashion-conscious shoppers with increasing spending power.

Casual dining establishments, including Vikings, Guernicas, My Little Buttercup, Thousand Cranes, Toho, Kimono Ken, Café Mary Grace, Zabo Chicken, Café Benne, and 12 Cupcakes, bring delight to hungry packs or those simply craving a good dessert plate.

SM BF Parañaque is built, not only to please the local shopping crowd, but also to be eco-friendly, sustainable, and resilient in the face of disasters. The mall's design and construction includes three skylight domes in its main atrium, reducing electricity use through maximizing sunlight. Air-conditioning is automatically regulated to help ensure efficiency energy consumption.

Given its proximity to affluent villages and residential and commercial projects in Parañaque, Las Piñas, Alabang, and nearby areas, this more upscale shopping scene – an integration of new leisure services and features – is a welcome addition to SM Prime's portfolio of mall developments that constantly raise the bar.

OVERALL LANDBANK FOR SM PRIME HOLDINGS, INC. AFTER MERGER

900 Hectares

Equivalent to

15 Mall Of Asia Complexes

SM AURA

5 Cinema screens

953 Seating capacity

SM BF PARAÑAQUE

6 Cinema screens

564 Seating capacity

The SM Megamall Fashion Hall

SM Center Angono

SM Bacolod

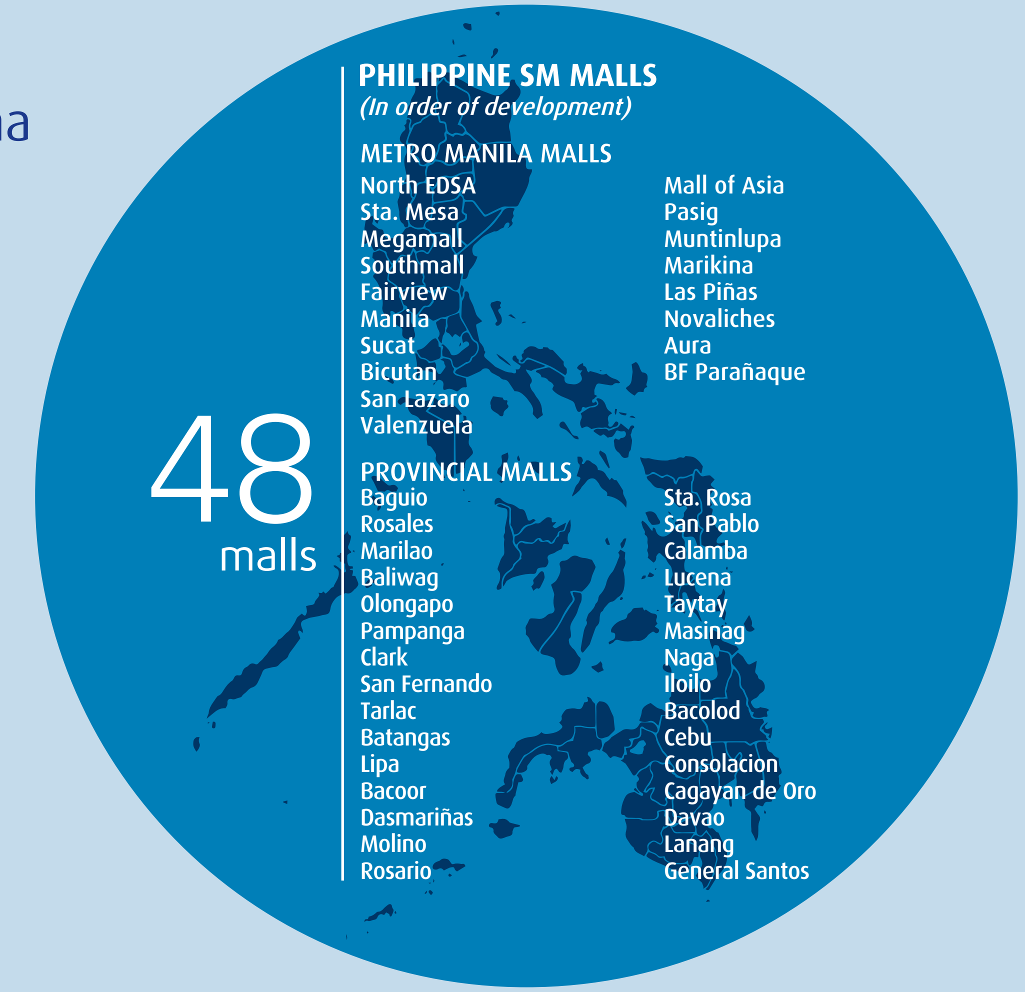
Mall Expansion Programs in 2014

Buoyed by the country's growing economy and the consumers' spending appetite, SM Prime is gearing up for an expansion of its mall business.

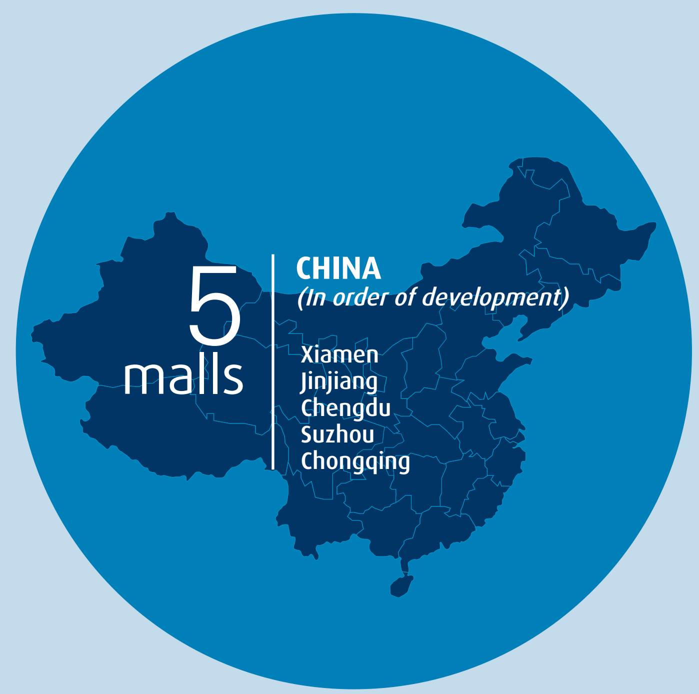
The property holding firm is earmarking about PHP10 billion to open SM Center Angono in Rizal with a gross floor area (GFA) of 33,094 sqm and SM City Cauayan in Cagayan Province with a GFA of 94,386 sqm. SM Center Angono will be SM's new mall in the Art Capital of the Philippines and Rizal province. SM City Cagayan on the other hand will be SM's first mall in the Cagayan Valley region, particularly in Isabela, one of the most progresive cities in the region. SM Prime is also expanding three malls in the Philippines in 2014. These are: the SM Megamall Fashion Hall, which was opened in January 2014; SM Bacolod; and SM Lipa in Batangas province. The three will have a combined gross floor area of 269,331 square meters.

The expansion of SM Megamall transforms it into the country's largest mall with a total GFA of 506,435 sqm. Its expansion over the years is characteristic of SM Prime's progressive business model for mall development which continuously grows with its host communities and evolves as a lifestyle and entertainment destination.

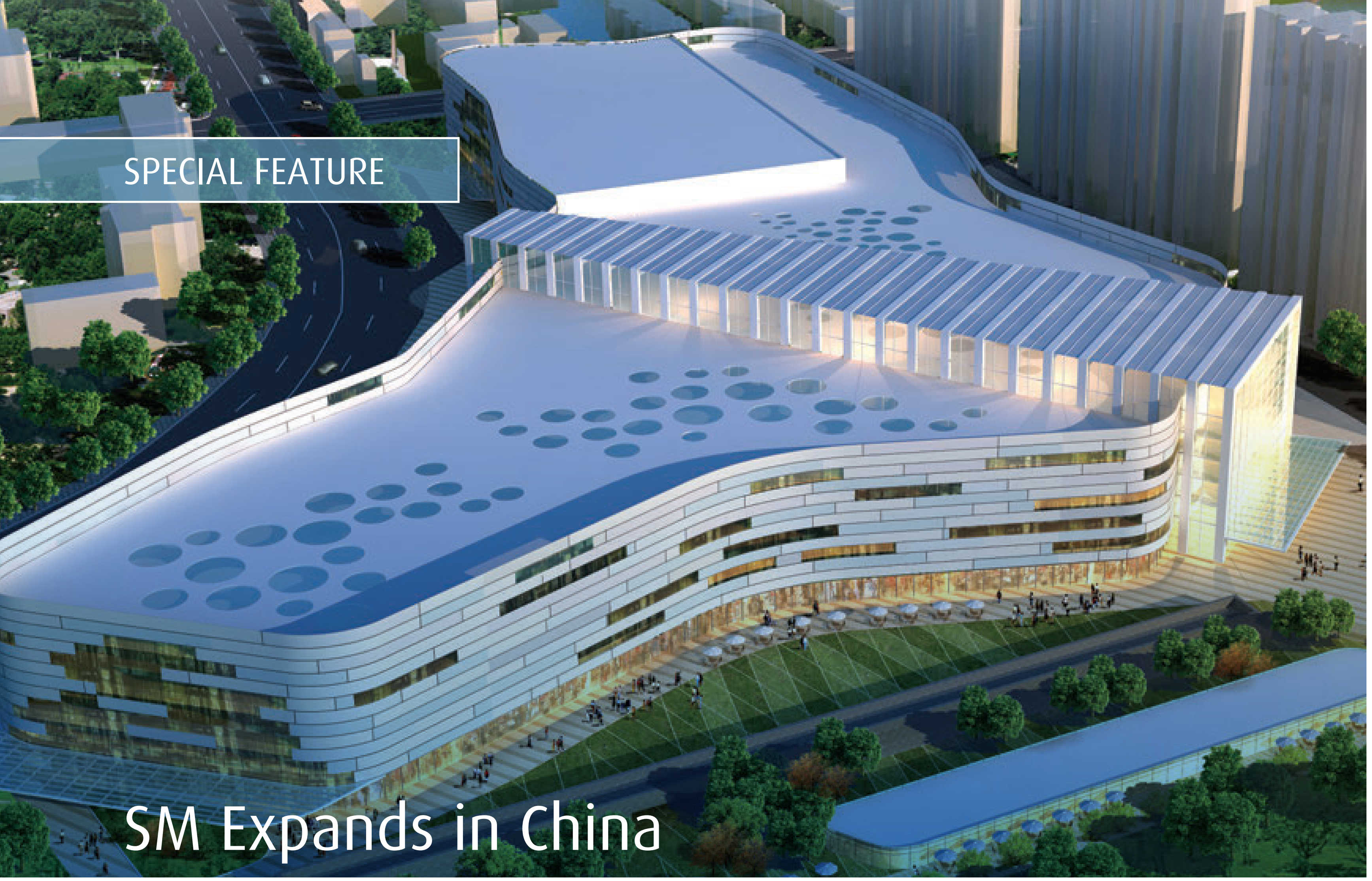
SM Malls: Philippines and China



Total Gross Floor Area
6,154,258
sqm



Total Gross Floor Area
794,601
sqm



SM Expands in China

Artist's rendering of SM City Zibo

SM CHINA

Revenues

	PHP million	
2013	3,121	+18%
2012	2,636	+24%

PHP million

Net Income After Tax

	PHP million	
2013	958	+6%
2012	904	+24%

PHP million

Year Opened	Name of Mall	GFA
2001	SM City Xiamen	128,203 sqm
2005	SM City Jinjiang	167,830 sqm
2006	SM City Chengdu	166,665 sqm
2009	Lifestyle Center (Xiamen Expansion)	109,922 sqm
2001	SM City Suzhou	72,552 sqm
2012	SM City Chongqing	149,429 sqm
		Total: 794,601 sqm

SM remains optimistic on China's economy, seeing vast opportunities in its emerging middle class. It is bent on using the same formula that made SM a respected name in the Philippines.

SM Prime Holdings, inc. (SM Prime) successfully operates five malls in China – SM City Xiamen (including SM Lifestyle Center), SM City Jinjiang, SM City Chengdu, SM City Suzhou, and SM City Chongqing, with a total gross floor area of 794,601 sqm. These shopping destinations have an average occupancy level of 95 percent, and are visited by 200,000 customers daily.

Far from sitting on its laurels, SM Prime is about to open its 6th mall in China with SM City Zibo, with an estimated GFA of 150,000 sqm. Zibo is at the heart of Shandong province, has a population of about four million, and is bordered by tourist cities Jinan and Qingdao.

SM City Zibo is targeted to be a one-building structure inspired by nature, with a fluid, free-flowing shape. Its interior will take advantage of natural day-lighting through skylights and scenic views toward the exterior of each arcade. The appearance of the mall uses the metaphor of the flowing river, which will reflect in the blue ribbon of the angling façade. Al fresco dining offers a view of an actual body of water, the Xiao Fu River.

From malls of wide ranging retail, dining, and entertainment pleasures, the company is now setting its sights on a high-rise residential venture. These developments will not only revitalize communities in China, but will also embody SM Prime's world-class aspirations.

3,740 solar panels power up the SM City Xiamen and its Lifestyle Center

SM City Xiamen Goes Solar

Going beyond its financial bottom line, SM's China Malls also serve to showcase the company's environmental stewardship by reducing greenhouse gas emissions and optimizing energy efficiency.

In July 2012, it launched a 1.1-megawatt rooftop solar power generation project for SM City Xiamen – a US$2-million investment and the first of its kind in the Fujian province.

The solar project equips SM's first supermall with 3,740 solar panels on its roof, both in SM City Xiamen Phase One (built in 2001 and with a GFA of 128,203 sqm) and Phase Two, the SM Lifestyle Center (built in 2009 and with a GFA of 109,922 sqm). It has a total capacity of 1,100 kilowatt peak, with an average generated electricity of around 1.1 million kilowatt-hours (kWh).

The facility has an estimated 25-year lifespan, with a total generated electricity of approximately 27.5 million kWh. This power load can supply more than 137,500 bulbs lit up simultaneously for eight hours.

This groundbreaking initiative is the first Building Integrated Photovoltaic (BIPV) shopping mall in Xiamen, and the only one in Fujian province that received a government incentive in 2013. For its outstanding contribution to carbon emission reduction and energy saving, it was awarded the "Mall China Golden Mall Awards 2013 Design Innovation Award" in September 2013.

Similar efforts of SM Prime to derive an effective, economical alternative to traditional energy generation include a thermal energy storage plant in SM City Jinjiang. It is an ice-based cooling system that promoted a decrease in the electricity bills of the mall, along with increased energy efficiency.

NUMBER OF SOLAR PANELS FOUND ABOVE SM CITY XIAMEN

3,740

Shore Residences

Trees Residences

NUMBER OF UNITS

Shore Residences	5,677
Trees Residences	7,137

Coming Home to Trees and Shore

Be it shopping or banking, watching movies or going on vacation, Filipinos experience an SM property for the better part of their lives.

In 2013, SM Prime Holdings, Inc (SM Prime), through its residential arm, SM Development Corporation (SMDC) continued to capture this vibe with three newly launched developments.

The Trees Residences in Novaliches gives residents of northern Quezon City the option to live close to the city center. It is five minutes away from SM City Fairview, 19 minutes from Quezon City Memorial Circle and City Hall, and two minutes from the La Mesa Ecopark. The proposed MRT 7 will make the area even more accessible.

Set to rise on an eight-hectare site, Trees is a mid-rise vertical development that offers the security of a gated community, as well as well-crafted amenities. The property will have 19 seven-floor condominium buildings with five types of units to suit a variety of lifestyle needs.

Like Trees, Shore Residences also combines affordability and luxury. With spectacular bay views, this 3.3-hectare property sits at the heart of convergence. One of the world's biggest malls, the sprawling Mall of Asia complex, is literally at its doorstep. With the Ninoy Aquino International Airport just 10 minutes away, it's the perfect gateway to other local and international destinations.

Shore Residences will have four towers of 19 floors each, with amenities such as swimming pools, lush gardens, jogging trails, lounges, function rooms, a pavilion, a multi-purpose playing field and a basketball court. To take full advantage of its location, the complex will be landscaped with a beach approach.

With these two projects, SM Prime will now have 16 residential condominium developments. Other properties include Grass Residences, Field Residences, Sun Residences, Light Residences, Jazz Residences, Wind Residences, Blue Residences, Mezza II Residences, Green Residences, Shell Residences, M Place, Shine Residences, Breeze Residences and Grace Residences.

Grass Residences, Phase Two

Convenient Living Spaces

Committed to the continued success of its various residential projects all over Metro Manila, SMDC is embarking on the continued expansion of four of its major brands: Grass Residences, Wind Residences, Grace Residences and Field Residences.

Grass Residences

Grass Residences, a 1.4-hectare property located beside SM City North EDSA, will be adding two more towers. At 40 storeys each, the project will generate an additional 3,900 units.

With its strategic location, residents have access to multiple transport options going north and south, especially for those who avail of public utility vehicles.

Wind Residences

Wind Residences is a 15-hectare development located at the heart of Tagaytay City. It will have ten towers of 20 storeys – each affording residents a view of Taal Lake.

Grace Residences

Grace Residences, a 2.5-hectare property in Taguig City, will also add two more towers. The entire property will have a total of 3,579 units. It is a stone's throw away from SM Aura and from Makati and Ortigas commercial business districts.

Field Residences

Field Residences, situated beside SM City Sucat, occupies 7.8 hectares of prime land in the south. The property will have ten towers with eight to ten floors each. It offers a relaxing and balanced lifestyle with its various outdoor amenities that residents can enjoy without having to leave the city.

Combining location, convenience, well-crafted amenities, and affordable luxury, SM Residences offer an attractive and smart option for middle-income buyers that truly embrace the good life.

Field Residences

Wind Residences

Banking

SM's banking business consists of BDO Unibank, Inc., now the country's largest bank and China Banking Corporation, the first privately owned local commercial bank in the country.

Banking

BDO

- Net interest income grew by 20% amounting to PHP43.2 billion
- Net income grew by 56% amounting to PHP22.6 billion
- 814 branches in the Philippines; 1 in Hong Kong
- 2,261 ATMs in the Philippines and 2 in Hong Kong

CHINABANK

- Net interest income grew by 23% amounting to PHP9.9 billion
- Net income grew by 2% amounting to PHP5.1 billion
- 445 branches nationwide
- 625 ATMs nationwide

Year in Review: BDO Unibank, Inc.

DEPOSITS

PHP1.3 trillion

increased by **44%**

BDO Unibank, Inc. (BDO) posted a record-high net profit of PHP22.6 billion in 2013. This not only surpassed the PHP14.5-billion profit in 2012 by 56%, but also exceeded its PHP20.4-billion earnings guidance for the year.

The Bank pulled off a sterling performance on the back of the continued solid growth across all businesses. This enabled it to maintain its leadership position in most areas despite the market challenges.

The country's largest bank attributed its strong earnings growth to its core businesses augmented by exceptional trading gains. Net interest income rose by 20% year-on-year to PHP43.2 billion, as customer loans expanded by 19% to breach the PHP900-billion mark. Lending activity intensified in the large corporates, middle market and the small and medium enterprise (SME) segments.
The country's robust economy allowed these segments to exhibit double-digit growth rates.

BDO also benefited from increased consumer confidence as aggregate consumer loans grew by double-digit levels. The influx of new vehicle models, as well as the entry of smaller cars and low interest rates helped shore up auto loan bookings. End-user financing tie-ups with real estates developers and the continued expansion of credit card usage also boosted the Bank's home loan and credit card segments, respectively.

Meanwhile, trading and foreign exchange gains surged 55% while fee-based income increased by 15%.

Deposits increased by 44% to PHP1.3 trillion, supported by low-cost strong growth in deposits, the opening of 52 new branches in 2013 as well as inflows from the phase out of Special Deposit Accounts (SDA) with the BSP.

Despite its loan expansion, BDO's non-performing loans ratio fell to 1.6% from 2.8%. It set aside PHP7 billion as loan-loss provision, raising the coverage ratio to 171%.

BDO registered a capital adequacy ratio of 15.8% and Tier 1 capital ratio of 14.6% following its USD1-billion rights offering in 2012 as well as from retained profits, placing these comfortably above the more stringent Basel III capital requirements effective January 2014.

BDO's strategic direction is anchored on the following:

- Stable growth through a diversified and sustainable earnings stream
- Scale advantage by creating operating leverage and
- Prudent balance sheet management through conservative provisioning and sound capital management

In 2014, BDO plans to roll out 51 branches, bringing the total number of branches to 865 by year end.

The Bank pulled off a sterling performance on the back of the continued solid growth across all businesses. This enabled it to maintain its leadership position in most areas despite the market challenges.

Banking on the Nation's Lifeblood

To boost its focus on SMEs, China Banking Corporation (China Bank), has acquired a controlling stake in Planters Development Bank (Plantersbank). The deal combines the resources of a 93-year old universal bank having the longest history of supporting entrepreneurs with the country's leading bank for SMEs.

Plantersbank is one of the Philippines' largest private development bank with 78 online branches. It has total assets of over PHP50 billion and ranks 4th out of 69 thrift banks (as of Dec. 2013). It was also ranked within the top 500 in the Philippines' top 1,000 corporations. For the past four decades, it has carved a niche in the SME sector, believing that the promotion of entrepreneurship is a key factor to nation building.

"This partnership with China Bank underscores our shared commitment, and will ensure the continued development of broad-based access to financial products and solutions for the SME," said Plantersbank Chairman and Ambassador Jesus P. Tambunting.

"We are very honored that China Bank was chosen by Plantersbank to be the partner to carry on and strengthen the legacy and advocacy of supporting entrepreneurs in this country," said SMIC and China Bank chairman Hans T. Sy. "We are excited by the opportunities to combine the strong legacy of both institutions to strengthen our presence in the SMEs and the middle market."

After the Plantersbank merger, the China Bank Group ranks as the country's 5th largest bank with a combined network of over 400 branches, including China Bank's 367 branches and those of China Bank Savings and Unity Bank. The China Bank Group also includes CBC Insurance Brokers Inc., and Bancassurance affiliate Manulife China Bank Life Assurance Corporation.

Year in Review: China Bank

CHINA BANK AND PLANTERSBANK MERGER

Post merger, China Bank will rank as the country's **5th** Largest Bank with a Total of **445** Branches and **PHP465** billion in total assets

China Banking Corporation (China Bank) posted a consolidated net income of PHP5.10 billion for 2013, which translated to a return on equity of 11.31% and return on assets of 1.45%.

Net interest income improved 23.2% to PHP9.94 billion, following the drop in interest expense by 18.5% due to lower cost of funds. This resulted to an improved net interest margin of 2.98% in 2013 from 2.90% in 2012.

The Bank's strong core businesses showed sustained growth in 2013. Total assets expanded 27.62% to PHP413.70 billion mainly from the growth in loans and liquid assets supported by strong deposit growth. Loans expanded 16% year-on-year to P220.54 billion as demand increased across all customer segments: corporate, commercial, and consumer. In particular, China Bank Savings' loans surged 114% to PHP9.61 billion. Total deposits grew 30.3% to PHP354.27 billion, driven by a hefty 50.5% increase in low-cost peso deposits to PHP137.13 billion, improving the overall funding mix. Low cost-to-total Peso deposits ratio stood at 48.4% in 2013 versus 41.8% in 2012.

Close monitoring at the Board level and sustained collection efforts led to a further 10% drop in the Bank's non-performing loans (NPLs) to PHP4.52 billion, reducing its gross NPL ratio to 1.99% and improving its loan loss coverage ratio to 146.62%, one of the best in the industry.

In 2013, China Bank acquired Planters Development Bank (Plantersbank) to strengthen its presence and support to the SME sector. With the acquisition, China Bank is now the fifth largest private domestic universal bank in the country with PHP464 billion in assets (as of December 31, 2013). The addition of Plantersbank's 78 branches to China Bank and China Bank Savings' branch network brings the total branch count of the China Bank Group to 445 branches.

The China Bank Group counts China Bank, China Bank Savings, Unity Bank, CBC Insurance Brokers Inc., and Bancassurance affiliate Manulife China Bank Life Assurance Corporation (MCBLife).

Moving forward, China Bank aims to grow further by generating value from network expansion through aggressive customer acquisition and achieving shorter break-even period for new branches. Likewise, China Bank will strengthen its relationships and continue to focus on consumer, MME and SME markets through Plantersbank and China Savings Bank.

It will continue to diversify and expand its fee-based businesses such as bancassurance, investment banking, and wealth management, among others. It has reorganized to become a more responsive and competitive organization supported by more robust technology platform.

Moving forward, China Bank aims to grow further by generating value from network expansion through aggressive customer acquisition and achieving shorter break-even period for new branches.

FAST FACTS

SM INVESTMENTS CORP.

Number of Employees
More than 220,000

Revenues	Net Margin
PHP253 bn	11%

Market Value	Return on Equity (ROE)
USD12.5 bn	13.5%

Revenue Growth
13%

RETAIL

Total Selling Area 1,001,844 sqm

Total Number of The SM Stores
48 Total selling area: 417,526 sqm

Total Number of SM Supermarkets
39 Total selling area: 174,347sqm

Total Number of Savemore Stores
93 Total selling area: 157,325 sqm

Total Number of SM Hypermarkets
39 Total selling area: 200,607 sqm

Total Number of WalterMart Stores
22 Total selling area: 52,039 sqm

BANKING

	BDO Unibank, Inc.	China Banking Corporation
Deposits (PHP bn)	1,345	354
Gross Domestic Loans (PHP bn)	912	225
Branches	815	445
Number of ATM's	2,263	625
Number of Employees	23,277	5,594
Rank in the Philippines (Based on Assets)	1st	5th

PROPERTY GROUP

MALLS

	Philippines	China
Average Daily Foot Traffic (in million)	3.4	0.2
Mall Tenants	15,549	1,397
Movie Screens	263	39

RESIDENTIAL

Completed Projects
5

Ongoing Projects
16

SM HOTELS

Number of Rooms

Taal Vista	Radisson Blu
261	396

Pico Sands	Park Inn By Radisson
154	204

MOA ARENA

Land Area (sqm)	Seating Capacity
64,085	15,000

Full-house Capacity
20,000

CONVENTION CENTERS

Total Leasable Space (sqm)
14,818

Total Floor Area (sqm)
14,336

SM Foundation

True to its advocacy of "People Helping People", the SM Foundation, Inc. empowers through education, livelihood training, and health and medical programs. It also immediately responds to the needs of the communities affected by disasters. With people, the community and the environment as its three main focal points, SM aims to strengthen the fiber of growth while empowering the lives of many in the country.

SM Foundation

- Education

3,408 SCHOLARS under the SM College and Technical-Vocational Scholarship Programs

- Health

707,749 PATIENTS helped nationwide through the Foundation's Medical and Dental Missions

- Livelihood

7,021 FARMERS trained under the Kabalikat sa Kabuhayan Farmers' Program

**Full details in the SM Foundation Annual Report*

FAST FACTS

25
Tropical cyclones have entered the Philippines in 2013*

TOP THREE MOST DESTRUCTIVE TYPHOONS OF 2013

Labuyo
(International Name: Utor)
landfall in August

Santi
(International Name: Sari)
landfall in October

Yolanda
(International Name: Haiyan)
landfall in November

*From PAGASA

Operation Tulong Express: Rebuilding Lives

With 233 SM outlets nationwide, 14 residential property projects, more than 815 BDO Unibank branches, and the combined China Bank and Plantersbank network of 411 branches, SM is uniquely positioned to change the lives of Filipinos and make a difference in communities, even in areas where it does not operate.

To help rebuild homes, community centers, schools, and churches, and bring immediate relief to the Typhoon Yolanda and earthquake victims in 2013, the SM Group was the first Philippine company to pledge PHP100 million in assistance. Philippine areas covered by this fund are Tacloban, Ormoc, Samar, Cebu, Iloilo, Capiz and Bohol. SM uses its vast distribution channels to aid people affected by calamities and other disasters. Through the SM Foundation, SM's quick-response system Operation Tulong Express is able to reach out to those in need of material and emotional support during and after disasters.

A big difference it is making now as SM responds to the call for assistance by victims of the country's most devastating typhoon. Yolanda with winds of up to 315 kph struck Eastern Visayas rendering thousands homeless.

In November 2013, Operation Tulong Express was set into motion within hours after the typhoon struck, SM Foundation immediately sent 50,000 kalinga (relief) packages that were simultaneously distributed to affected communities in Leyte, Eastern Samar, Northern Panay, Northern Cebu, Negros Occidental, Bohol and Legaspi. The relief packs included mineral water, rice, ready-to-eat meals, and instant noodles.

Employee volunteers were also mobilized and a mobile clinic was sent to Ormoc City, one of the severely hit areas, to give immediate medical attention to the typhoon victims. Medicines were also sent to Tanauan, Leyte.

SM Foundation also became one of the first organizations to conduct relief and medical operations for typhoon survivors who were flown to Manila and brought to Villamor Air Base in Pasay City. In the two-week relief operations, over 5,500 survivors were given medical attention, medicines, hot food and relief packs. In July 2013, the SM Foundation distributed 1,750 *kalinga* packs to the victims of typhoon Labuyo.

In August 2013, typhoon Maring and the Habagat flooded Metro Manila and nearby provinces. The Foundation was able to distribute 39,780 *kalinga* packs to the victims in Bulacan, Cavite, Laguna, Metro Manila and Pangasinan.

After the oil spill in Rosario, Cavite and typhoon Santi in Cabanatuan City in October 2013, 3,000 *kalinga* packs were distributed to the victims in these areas.

While it can draw on its own resources, SM realizes that it cannot do things alone. It engages others to magnify the assistance for a greater number of people in need.

In 2013, SM gave shoppers a convenient way to contribute to the Typhoon Yolanda relief effort through a nationwide drive by SM Food Retail called SM Donate-A-Bag. For as little as a hundred pesos, SM shoppers could send bottles of water, biscuits and ready-to-eat meals to typhoon-stricken areas of their choice. The SM green bags filled with relief goods were sold at several SM Supermarkets, Hypermarkets and Savemore supermarkets.

Seeing the potential to raise more donations from the huge foot traffic inside its biggest mall, SM also tapped local radio and television celebrities to draw shoppers to the Operation Tulong Express booth inside the SM Megamall Atrium.

As charity begins at home, SM employees also raised PHP1 million in cash donations from their personal salaries for the Yolanda victims.

CONTENTS OF KALINGA (RELIEF) PACKS

- **Mineral water**
- **Rice**
- **Ready-to-eat meals**
- **Instant noodles**

RELIEF PACKS DISTRIBUTED IN 2013

1,750
for Labuyo

3,000
for Santi and the Rosario, Cavite oil spill

148,030
for Yolanda

39,780
for Maring and Habagat

192,560
Total Kalinga Packs

BOARD OF DIRECTORS

On this page from left to right: **STEPHEN C. CUUNJIENG** Adviser to the Board, **HANS T. SY** Adviser to the Board, **VICENTE S. PEREZ, JR.** Independent Director, **HENRY T. SY, JR.** Vice Chairperson, **TERESITA SY-COSON** Vice Chairperson and **HENRY SY, SR.** Chairman

On this page from left to right: **HARLEY T. SY** Director, **JOSE T. SIO** Director, **JOSEPH R. HIGDON** Independent Director, **AH DOO LIM** Independent Director, **ELIZABETH T. SY** Adviser to the Board and **HERBERT T. SY** Adviser to the Board

HENRY SY, SR., Chairman
Mr. Henry Sy, Sr. is the founder of the SM Group and is currently Chairman Emeritus of SM Prime and Chairman of SM Development, and Highlands Prime, Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 which has since evolved into a dynamic group of companies with three lines of businesses – retail, property development and banking. He is likewise Chairman Emeritus of BDO Universal Bank, Inc. and Honorary Chairman of China Banking Corporation.

TERESITA SY-COSON, Vice Chairperson
Ms. Teresita Sy-Coson has varied experiences in the retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairman of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

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

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

JOSE T. SIO, Executive Vice President and Chief Finance Officer
Mr. Jose T. Sio is also a Director of China Banking Corporation, Belle Corporation, SM Keppel Land, Inc., Manila North Tollways Corporation, and Atlas Consolidated Mining and Development Corporation as well as other companies within the SM Group. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and SM Development Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co.

VICENTE S. PEREZ, JR.*, Independent Director
Mr. Vicente S. Perez, Jr.'s career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy Partners, a renewable power company, and Chairman of Merritt Partners, an energy advisory firm. He held various cabinet positions in government and is the current Chairman of the World Wide Fund - Philippines.

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

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

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

ADVISERS TO THE BOARD:
ELIZABETH T. SY, HANS T. SY, HERBERT T. SY and STEPHEN C. CUUNJIENG

SMIC CORPORATE EXECUTIVES

On this page from left to right: **ATTY. MARIANNE M. GUERRERO** Senior Vice President, Legal Department; **ATTY. EMMANUEL C. PARAS** Corporate Secretary; **ATTY. CORAZON I. MORANDO** Senior Vice President, Corporate and Legal Affairs / Assistant Corporate Secretary; **ELIZABETH ANNE C. UYCHACO** Senior Vice President, Corporate Services; **FREDERIC C. DYBUNCIO** Senior Vice President, Investments Portfolio; and **HARLEY T. SY** President

On this page from left to right: **JOSE T. SIO** Executive Vice President and Chief Finance Officer; **FRANKLIN C. GOMEZ** Senior Vice President, Finance; **MA. RUBY LL. CANO**† Senior Vice President, Controllership; **GRACE F. ROQUE** Senior Vice President, Treasury; **CECILIA R. PATRICIO** Senior Vice President, Corporate Tax; **CORAZON P. GUIDOTE** Senior Vice President, Investor Relations; and **GIL L. GONZALES** Vice President, Corporate Governance and Risk Management

BOARD COMMITTEES

AUDIT AND RISK MANAGEMENT COMMITTEE

Vicente S. Perez, Jr.	Chairman
Henry T. Sy, Jr.	Member
Jose T. Sio	Member
Joseph R. Higdon	Member
Atty. Corazon I. Morando	Member
Atty. Serafin U. Salvador	Member

COMPENSATION AND REMUNERATION COMMITTEE

Teresita Sy-Coson	Chairman
Jose T. Sio	Member
Vicente S. Perez	Member

NOMINATION COMMITTEE

Henry T. Sy, Jr.	Chairman
Ah Doo Lim	Member
Atty. Corazon I. Morando	Member

CORPORATE INFORMATION OFFICERS

Jose T. Sio	Corporate Information Officer
Atty. Corazon I. Morando	Alternate Corporate Information Officer
Atty. Emmanuel C. Paras	Alternate Corporate Information Officer

COMPLIANCE OFFICERS

Atty. Corazon I. Morando	Compliance Officer
Atty. Emmanuel C. Paras	Alternate Compliance Officer

CORPORATE GOVERNANCE

"At SM, we take a comprehensive approach to our corporate governance consistent with our core values of leadership, integrity, hard work, innovation, sustainability and accountability. All of our stakeholders, our creditors, customers, suppliers, contractors, employees, regulators and the public should see corporate governance present in all aspects of our business, therefore creating a culture of good governance throughout the organization."

– Mr. Jose T. Sio, EVP and CFO, SMIC

A key factor to SM's continued growth and sustainability is the commitment to the belief that good governance equates to good business. As such, SMIC recognizes the vital role that the practice of good corporate governance plays in the organization and continues to strengthen its corporate governance culture to mirror the pace of its rapidly growing business. SMIC's platform of governance remains rooted in its Manual on Corporate Governance and Code of Ethics, which adhere to the principles of good governance. The Company promotes these principles to everyone in the organization and to all of its stakeholders and continues to keep pace with global corporate governance best practices under the guidance of its Board of Directors.

THE BOARD OF DIRECTORS

The Board of Directors is composed of eight (8) directors, three (3) of whom are non-executive independent directors, in the persons of Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim, and Mr. Joseph R. Higdon. Under SMIC's Manual on Corporate Governance, an independent director must possess all of the qualifications and none of the disqualifications of a regular director. He must also be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. SMIC's independent directors provide balance at the board-level by ensuring impartial discussions during meetings. They likewise monitor the performance of Management and safeguard the interests of the Company's stakeholders, among their other duties as directors.

Board of Directors

Director's Name	Directorship	Age	Year First Elected	Elected When (Annual/Special Meeting)	No. of years served as director
Henry Sy, Sr.	Non-Executive Director	88	1960	Annual	54
Teresita T. Sy	Non-Executive Director	62	1979	Annual	35
Henry T. Sy, Jr.	Non-Executive Director	59	1979	Annual	35
Harley T. Sy	Executive Director	53	1993	Annual	21
Jose T. Sio	Executive Director	73	2005	Annual	9
Vicente S. Perez, Jr.	Independent Director	54	2005	Annual	9
Ah Doo Lim	Independent Director	63	2008	Annual	6
Joseph R. Higdon	Independent Director	71	2010	Annual	4

Directorships in Other Listed Companies

Director's Name	Listed Companies	Directorship
Henry Sy, Sr.	SM Prime Holdings, Inc.	Non-Executive Director (Chairman)
	SM Development Corp.	Non-Executive Director (Chairman)
	Highlands Prime, Inc.	Non-Executive Director (Chairman)
	BDO Unibank, Inc.	Non-Executive Director (Chairman Emeritus)
	China Banking Corporation	Non-Executive Director (Honorary Chairman)
Teresita T. Sy	BDO Unibank, Inc.	Executive Director (Chairperson)
	BDO Leasing and Finance, Inc.	Non-Executive Director (Chairperson)
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Non-Executive Director
	SM Development Corporation	Executive Director
	Highlands Prime, Inc.	Executive Director
	BDO Unibank, Inc.	Non-Executive Director
Harley T. Sy	China Banking Corporation	Non-Executive Director
Jose T. Sio	China Banking Corporation	Non-Executive Director
	Belle Corporation	Non-Executive Director
	Atlas Consolidated Mining & Development Corp.	Non-Executive Director
Vicente S. Perez, Jr.	Singapore Technologies Telemedia Pte Ltd.	Independent Director
Ah Doo Lim	Sembcorp Marine Ltd.	Independent Director
	Sateri Holdings Limited	Independent Director
	GP Industries Ltd.	Independent Director
	ARA-CWT Trust Management Ltd.	Independent Director
	U Mobile Sdn Bhd.	Independent Director
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director

THE CHAIRMAN AND PRESIDENT

Only two (2) members of the Board are executive directors, namely the Company's President, Mr. Harley T. Sy and Mr. Jose T. Sio, SMIC's Executive Vice President and Chief Finance Officer. Non-executive directors meet at least once a year, without any executive directors or representatives of Management present. The roles of the Chairman of the Board and the President are held by separate individuals, whose functions and responsibilities are identified in the Manual on Corporate Governance. Based on the provisions in the Manual on Corporate Governance, the responsibilities of the Chairman of the Board are:

a. To preside at all meetings of stockholders and directors;
b. To sign all certificates, contracts and other instruments on behalf of the Company, except as otherwise provided by law;
c. To have general supervision and administration of the affairs of the Company;
d. To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors;
e. To carry out the resolutions of the Board of Directors and to represent the Company at all functions and proceedings; and
f. To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

Based on the provisions in the Manual on Corporate Governance, the responsibilities of the President are:

a. To ensure that the administrative and operational policies of the Company are carried out under the direction and control of the Chairman of the Board and the Board of Directors;
b. To supervise and direct the day to day business affairs of the Company;

CORPORATE GOVERNANCE

c. To recommend to the Chairman of the Board and the Board of Directors specific projects for the attainment of corporate objectives and policies;
d. To exercise such powers and perform such duties commonly incident to and vested in the President of a Company and which the Chairman of the Board and the Board of Directors may from time to time assign him; and
e. To sign or cause the signatures of Certificates of Stock.

The President may assign the exercise or performance of any of the aforementioned powers, duties and functions to any other officer(s), subject always to his supervision and control.

BOARD RESPONSIBILITIES

SMIC's Manual on Corporate Governance instills in the Board of Directors the duty of safeguarding the long term success of the business, in a manner that demonstrates the corporate governance principles of fairness, accountability and transparency. Consistent with these principles, the Board also performs the following tasks:

- The periodic (at least every three [3] years) review of SMIC's purpose, vision, mission and values and strategies;
- The maintenance of the selection process that ensures a healthy mix of competent directors and officers;
- To ensure that SMIC complies with all relevant laws, regulations and codes of best business practices;
- The periodic review of SMIC's succession plan for the Board of Directors and key officers;
- To effectively serve SMIC's stakeholders and maintain a clear means of communicating with and relating to them through an active and efficient investor relations program;
- To adopt and sustain an effective system of internal checks and balances;
- To identify, assess and diligently mitigate key risk areas;
- To meet regularly; giving due consideration to independent views and ensuring that proceedings are duly minuted;
- To keep Board authority within the powers prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
- To require each elected director, before assumption of office, to attend an orientation or seminar on corporate governance conducted by a duly regulator-accredited training provider;
- To formulate and approve policies that ensure the integrity of related party transactions between and among the Company and its related companies, business associates, major stockholders, directors and officers and their material relations; and
- To establish and maintain an alternative dispute resolution system to settle conflicts between the Company and its stockholders or other third parties, including regulatory authorities.

BOARD COMMITTEES

To address specific tasks and responsibilities, the Board adopted four (4) committees, namely the Nomination Committee, the Audit and Risk Management Committee, the Executive Committee and the Compensation and Remuneration Committee. Each committee has adopted a Charter which defines its composition, roles and responsibilities based on the provisions found in the Manual on Corporate Governance. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

The Nomination Committee

The Nomination Committee is tasked with the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. Per the Company's Manual on Corporate Governance, each director shall possess all of the following general qualifications:

- A holder of at least one (1) share of stock of the Company;
- At least be a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- At least be twenty-one (21) years old;
- Shall have proven to possess integrity and probity; and
- Shall be assiduous.

It is the Nomination Committee that ensures that all nominated directors meet all the qualifications and none of the disqualifications to be a director. Likewise, the Committee ensures that those nominated to the Board have attended an orientation or training related to corporate governance provided by a regulator accredited training provider. Furthermore, the Nomination Committee facilitates the annual performance evaluation of SMIC's Board as a whole, its respective Board Committees, the individual

The Nomination Committee

Office	Name	No. of Meetings Held	No. of Meetings Attended	Length of Service in the Committee
Chairman	**Henry T. Sy, Jr.**	1	1	7yrs.
Member (ID)	**Ah Doo Lim**	1	1	5yrs.
Member	**Corazon I. Morando**	1	1	7yrs.

Evaluation of the Board and President

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

Directors are also asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body.

Board Performance and Attendance

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

Board Attendance

Directors	Regular	Regular, ASM & Organizational	Special	Regular	Special	Regular	%
	3/6/13	4/25/13	8/1/13	8/7/13	11/5/13	11/6/13	
Henry Sy, Sr.	☑	☑	☑	☑	☑	☑	100%
Teresita Sy-Coson	☑	☑	☑	☑	☑	☑	100%
Henry T. Sy, Jr.	☑	☑	☑	☑	☑	☑	100%
Harley T. Sy	☑	☑	☑	☑	☑	☑	100%
Jose T. Sio	☑	☑	☑	☑	☑	☑	100%
Vicente S. Perez, Jr.	☑	☑	☑	☑	☑	☑	100%
Joseph R. Higdon	☑	☑	☑	☑	☑	☑	100%
Ah Doo Lim	☑	☑	☑	☑	☑	☑	100%

The Audit and Risk Management Committee

It is the role of the Audit and Risk Management Committee to directly interface 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. Furthermore, the Committee reviews SMIC's internal control system, 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 Committee is composed of six (6) members, two (2) of whom are independent directors, namely Mr. Joseph R. Higdon and the Committee Chairman, Mr. Vicente S. Perez, Jr. (Please see the Audit and Risk Management Committee Report for more information on the Committee's roles and activities.)

Audit and Risk Management Committee

Office	Name	No. of Meetings Held	No. of Meetings Attended	Length of Service in the Committee
Chairman (ID)	**Vicente S. Perez, Jr.**	1	1	7yrs.
Member (ID)	**Joseph R. Higdon**	1	1	2yrs.
Member	**Henry T. Sy, Jr.**	1	1	7yrs.
Member	**Jose T. Sio**	1	1	7yrs.
Member	**Corazon I. Morando**	1	1	5yrs.
Member	**Serafin U. Salvador**	1	1	5yrs.

The Executive Committee

The Executive Committee is composed of non-executive and executive directors and acts on behalf of the Board during the interim periods between Board meetings. The Committee is tasked to perform the following:

- May act by majority vote for matters within the competence of the Board in the interim period of Board meetings, as may be delegated by the Board or By-Laws, except in matters provided by the Corporate Code;
- Assist the Board in overseeing the implementation of strategies;
- Review the major issues facing the organization;
- Undertake drawing up and closing the Company's budgets;
- Monitor the operating activities of each business group;
- Define and monitor the Company's performance improvement goals;
- Define Group-wide policies and actions (sustainable development, including environment, health and safety, internal communications, internal control and risk management, innovation and research and technology, purchasing) and oversee their rollout; and
- Foster the sharing and dissemination of best practices in all areas between the different business groups.

The Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.

Compensation and Remuneration Committee

Office	Name	No. of Meetings Held	No. of Meetings Attended	Length of Service in the Committee
Chairman	**Teresita T. Sy**	1	1	7yrs.
Member	**Jose T. Sio**	1	1	7yrs.
Member (ID)	**Vicente S. Perez, Jr.**	1	1	7yrs.

Board Remuneration

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

CORPORATE GOVERNANCE RELATED POLICIES

To ensure the continued development of its corporate governance culture, SMIC periodically reviews and enhances its Manual on Corporate Governance, Code of Ethics and other corporate governance related policies. Furthermore, the Company makes its policies available to the public through its website – Please visit www.sminvestments.com to access the full downloadable versions of SMIC's corporate governance related policies, including the Manual on Corporate Governance and the Code of Ethics.

The Manual on Corporate Governance

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

There have been no deviations from the Manual since it was adopted. In January 2013, SMIC submitted to the SEC its certification of full compliance with the Manual, certifying that SMIC, its directors, officers and employees have adopted and fully complied with all leading practices and principles of good corporate governance as culled from the Manual.

The Code of Ethics

The Code of Ethics states the principles that guide SMIC's Directors, officers and employees in the performance of their duties and responsibilities, and in their transactions with investors, creditors, customers, contractors, suppliers, regulators and the general public. The Code underlines the importance of integrity in the relationships and dealings with business partners, and highlights the Company's duties regarding employee welfare, the rights of shareholders, the protection of material company information and the importance of corporate social responsibility.

Other CG Related Policies

• Insider Trading Policy

Directors, officers and employees are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of any material, stock price-sensitive information. SMIC issues reminders of the "trading ban", before the release of financial reports or the disclosure of other material information to ensure compliance with the policy. Trading done by directors and officers are reported to the appropriate regulators in a timely fashion.

• Related Party Transactions

SMIC discloses in detail the nature, extent and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE. Management regularly presents the details of transactions entered into by SMIC with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SMIC conducts all related-party transactions on an arms' length basis.

• Conflict of Interest Policy

SMIC's Conflict of Interest policy defines a conflict of interest as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him from acting in the best interests of the Company. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company.

• Guidelines on Acceptance of Gifts

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

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

• Anti-Money Laundering Guidelines

SMIC issued Anti Money Laundering Guidelines for its property group. The guidelines lay down rules on acceptance of payment for real property projects and stress the importance of know-your-client procedures. The guidelines are compliant with the provisions of the Anti-Money Laundering Law and its implementing rules and regulations.

• Guidelines on Placement of Advertisements

SMIC issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or director, officer or employee is one of the nominees vying for the award. SM may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or director, officer or employee.

• Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)

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

DISCLOSURE AND TRANSPARENCY

SMIC ensures that its stakeholders receive timely and accurate information on all facets of its business through the utilization of its website and disclosures. SMIC's website has a separate corporate governance section that features subsections on its policies, programs and other relevant developments. SMIC also ensures that shareholders are provided with periodic reports that include relevant information on its directors and officers and their shareholdings and dealings with the Company.

SMIC arranges teleconferences and site visits for investors, and conducts annual roadshows with stops in various locations throughout the world. Furthermore, the Company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on SMIC's various projects, financial and operational results. The presentation materials at these briefings, as well as the company's SEC and PSE reports and annual reports, may be viewed and downloaded from the website – Please visit SMIC's website at www.sminvestments.com to access disclosures, write-ups and other company information.

Annual Corporate Governance Report (ACGR)

Also included in the Company's website is SMIC's Annual Corporate Governance Report (ACGR). The ACGR highlights the Company's corporate governance practices and provides detailed information on SMIC's Board of Directors and Management and policies and programs.

Ownership Structure

SMIC regularly discloses its top shareholders and its beneficial owners who own more than 5% of its shares. Shareholdings of directors and senior management are disclosed in the Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting. SMIC practices one share-one vote.

The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) provides SMIC shareholders with the opportunity to raise concerns, give suggestions and vote on relevant issues. Voting methods are clearly defined and explained to shareholders to ensure the observance of their voting rights and continued participation in the voting process.

Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, shareholders may cumulatively vote for the election, removal or replacement of Board Directors. Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and key officers. Elected directors hold office for one (1) year until their successors are elected following the procedures set forth in SMIC's By-Laws. All Board members are duly screened and deemed eligible and highly qualified by the Nomination Committee.

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

RIGHTS, ROLES AND PROTECTION OF STAKEHOLDERS

Based on its Manual on Corporate Governance, Code of Ethics and other relevant rules, laws and regulations, SMIC is required to recognize and protect the rights and interests of its key stakeholders, namely its shareholders, employees, customers, business partners, creditors, as well as the communities it operates in and the environment.

Rights of Shareholders

The Manual on Corporate Governance protects the shareholders' appraisal right as well as their rights to vote, inspect corporate books and records, gain access to material information and receive an equitable share of the Company's profits. Under the Manual, the Board is tasked to promote shareholder rights, remove impediments to the exercise of these rights and provide remedies for violations of the same.

The exercise of a shareholder's voting right is encouraged by SMIC to ensure meaningful participation in all shareholders' meetings. Voting methods and vote counting systems employed by the Company are clearly explained to ensure the effective exercise of shareholders' right to vote. SMIC follows the system of cumulative voting for the election of directors to allow shareholders an opportunity to elect each member of the Board of Directors individually.

Shareholders have the right to receive dividends subject to the discretion of the Board. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code.

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

Employee Welfare

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

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

Emergency Preparedness Program

As part of its Enterprise Risk Management, SMIC implements an emergency preparedness program that aims to safeguard its workforce, operations and customers against emergencies, and natural and manmade disasters. In coordination with fire and security agents, the Company conducts regular safety drills throughout the SMIC workplace. These drills, along with emergency management related orientations and training are conducted to ensure a competent, composed and efficient response from SMIC's workforce in the event of an emergency. Furthermore, the Company has adopted a Call Tree as a means to effectively communicate with and ensure the safety of its employees during an emergency. (Please see the Audit and Risk Management Committee Report for more information on the Company's Enterprise Risk Management.)

Orientations and Training

SMIC remains committed to providing its directors, officers and employees opportunities for growth and development through its various training and orientation activities. Awareness and understanding of the principles of good corporate governance are essential to the continued development of SMIC's corporate governance culture. Through the HRD's Orientation for New Employees of SM (ONE SM), new employees are given an overview of SMIC's corporate governance framework, policies and its various components. It also covers the importance of integrity and ethics in the business, the Company's core values and the role that each individual must play in the overall development of the corporate governance culture. Also included in the orientation are the salient points of the Code of Ethics, which focus on employee rights and obligations, as well as the promotion of good work ethics and values.

Corporate Social Responsibility

SMIC recognizes the importance of assisting and nurturing the communities it operates in, as well as the impact it has on the environment. The Company works closely with SM Foundation, Inc., the CSR arm of the SM Group of Companies, to ensure the continued development of its various civic and environmental programs – For more information on the Company's CSR Programs, please visit the Corporate Social Responsibility section of the SMIC website at www.sminvestments.com.

AWARDS AND ACCOLADES

SM INVESTMENTS CORPORATION

The Asset Corporate Awards Platinum Awardee
(2009, 2010, 2011, 2012 and 2013)
For All Around Excellence in:
- *Management*
- *Financial Performance*
- *Corporate Governance*
- *Social Responsibility*

Alpha Southeast Asia
Most Innovative Deal Award for the Merger of SM's Property Assets

Alpha Southeast Asia, 3rd Annual Southeast Asia Institutional Investor Corporate Awards
- Most Organized Investor Relations
- Best Senior Management IR Support
- Strongest Adherence to Corporate Governance
- Best Strategic Corporate Social Responsibility
- Mr. Jose T. Sio-Best CFO in the Philippines

Forbes Asia Magazine
- Ms. Teresita Sy-Coson, cited among "Asia's 50 Businesswomen in the Mix"

Corporate Governance Asia 3rd Asian Excellence Recognition Awards
- Best Investor Relations
- Best Investor Relations: Website Promotion
- Best CSR
- Investor Relations: Jose T. Sio-Best CFO
- Investor Relations: Corazon P. Guidote Best IR Professional

9th Corporate Governance Asia Recognition Awards
- Asia's Icon on Corporate Governance

Corporate Governance Asia 1st Asian Company Secretary Awards
Mr. Emmanuel C. Paras

Finance Asia
- Best Corporate Governance Rank 5

Fund Managers Association of the Philippines
- Company of the Year

International Alternative Investment Review (IAIR) Awards
- Best Company for Leadership in Asia

49th Anvil Awards
- Anvil Award of Merit for the 2013 Unified SM Annual Reports

SM RETAIL

Philippine Retailers Association: 16th Outstanding Filipino Retailers and Shopping Centers of the Year Awards
The SM Store, Winner in the Full Line Department Store Category
Kultura Filipino, Category Killer Award (Hall of Fame)
Watsons, Your Personal Store, Top Foreign Brand Retailer in the Non-Food Category

Bagwis Service Excellence (Department of Trade and Industry)
Savemore Mendez, Salitran, Angono, Tanay and Morong-Silver Awards
Savemore Apalit and Iba-Bronze Awards

Zero Basura Olympics (ZBO) for Business (Department of Environment and Natural Resources (DENR) and Philippine Business for Social Progress)
My Own Bag Campaign, Champion for the Recycling Category

One of Naga City's Top Taxpayers
SM Department Store
SM Supervalue, Inc.

SM PRIME HOLDINGS, INC.

The Asset Corporate Awards Platinum Awardee
(2010, 2011, 2012 and 2013)
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Social Responsibility

9th Corporate Governance Asia Recognition Awards
Asia's Icon on Corporate Governance

Corporate Governance Asia 3rd Asian Excellence Recognition Awards
- Best Environmental Responsibility
- Best Investor Relations

Corporate Governance Asia 4th Asian Corporate Director Awards
Mr. Hans T. Sy

Institutional Investor's All Asia Executive Team Rankings
Mr. Jeffrey Lim- 3rd place, Asia's Best CFO (Property)

• Malls

Reader's Digest Trusted Brand 2013
Platinum Award-SM Supermalls for the Shopping Center/Mall Category

International Council for Shopping Centers (ICSC)
- 2013 Best of the Best VIVA Awards (Vision, Innovation, Value Achievement Award)
- Best of the Best VIVA Award Honoree for Marketing, SM Supermalls, Shopping Center Management Corp.

Office of the Vice President of the Philippines
- Gantimpalang Lampara ng Kultura at Sining Award (International Arts Education Week)
- Mr. Hans T. Sy- for providing venues for the arts and events particularly those involving persons with disabilities and focusing on environmental themes
- SM Group of Companies- Culture-Friendly Business Firm

• Residential

Corporate Governance Asia's 4th Asian Corporate Director Recognition Awards
Mr. Henry T. Sy, Jr.

Corporate Governance Asia 3rd Asian Excellence Recognition Awards
- Best Investor Relations Website/Promotion
- Mr. Henry T. Sy, Jr., Asia's Best CEO (Investor Relations)

Euromoney Magazine September 2013
- Best Retail Developer in the Philippines

• Leisure

Philippine Property Awards 2013
Pico De Loro Cove at Hamilo Coast-Best Condo Developer (Resort) and listed as one of Asia's Best Residences in 2013

AWARDS AND ACCOLADES

BANKING

• BDO Unibank, Inc.

The Asset Corporate Awards Platinum Awardee
(2010, 2011, 2012 and 2013)
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Social Responsibility

The Asset Triple A Country Awards
- Best Domestic Investment Bank: BDO Capital & Investment (7 consecutive years)
- Best deal, Philippines – BDO US$1 billion rights issue as
- BDO Capital & Investment Corporation has acted as the Issue manager and domestic underwriter

The Asset Triple A Private Banking, Wealth Management and Investment Awards 2013.
- Best Bank in the Philippines, BDO Private Bank

Alpha Southeast Asia 7th Annual Best Financial Institution Awards:
- Best Bank in the Philippines
- Best FX Bank for Corporates and Fis, Philippines
- Best Investment Bank in the Philippines-BDO Capital
- Best Bond House in the Philippines-BDO Capital
- Best Equity House in the Philippines-BDO Capital
- Best Private Wealth Management Bank Award-BDO Private Bank

Alpha Southeast Asia:
- No. 1 Most Organized Investor Relations
- No. 3 Best Senior Management IR Support

Finance Asia:
- Best Asian Bank
- Best Bank in the Philippines
- Best Non-Investment Grade Financial Institution in Asia in the Most Professional Borrowers category.
- Best Investment Bank in the Philippines-BDO Capital
- Best Equity House in the Philippines-BDO Capital
- Best Bank in the Philippines-BDO Private Bank

Asiamoney
- Country Deals of the Year 2012-BDO Unibank Php43.51 billion (USD1.04 billion) Rights Offering
- Bookrunners: BDO Capital, Citi, Deutsche, JP Morgan

Asia Banking and Finance
- Credit Card Initiative of the Year – Philippines

Euromoney
Best Bank in the Philippines

Euromoney Private Banking Survey 2013
BDO Private Bank-
Best Private Banking Services Overall

Euromoney Private Banking Survey 2013
BDO Private Bank-Best Private Banking Services Overall

Global Finance World's best Investment Bank Award
- Best Trade Finance Bank in the Philippines : BDO
- Best Investment Bank in the Phils: BDO Capital and Investment

The Asian Banker
Best Retail Bank in the Philippines

The Banker
- Bank of the Year in the Philippines
- No. 1 in the Philippines country listing
- No. 251 in the global listing - up from 396 in the world last year
- No. 1 in special chart showing the Top 10 fastest movers in Asia (excluding Japan and China)

Corporate Governance Asia 3rd Asian Excellence Awards
- Asia's Best CEO (Investor Relations) - Teresita Sy-Coson
- Asia's Best CFO (Investor Relations) - Pedro Florescio
- Best Investor Relations Company (Philippines) - BDO
- Best Investor Relations Professional (Philippines) - Luis S. Reyes

Corporate Governance Asia: The Best of Asia
- 9th Corporate Governance Asia Recognition Awards: BDO Unibank, Inc
- 4th Asian Corporate Director Recognition Awards-Teresita Sy-Coson

Corporate Governance Asia: 1st Asian Company Secretary Recognition Awards 2013
1st Asian Company Secretary Recognition Awards 2013 - Atty. Edmund Tan, Corp Sec, one of the recipients

Reader's Digest
Trusted Brand Gold Award

• China Bank

Philippine Stock Exchange Bell Awards
One of the top 5 awardees for Corporate Governance. The only bank among the top five awardees in the publicly-listed company category

SM FOUNDATION

Jose Rizal Award Department of Health - Philippine Blood Center
- For conducting mobile blood-letting activities with accumulated collection of more than 2,000 liters for the year
- SM is the first big organization to establish a virtual Blood Bank for its employees
- the SM Blood Bank for Employees gives blood and blood products to its employees and their relatives who are in direct need of this precious life commodity, free of charge

• SM Cares

Philippine Foundation for the Rehabilitation of the Disabled (PFRD)
- Apolinario Mabini Special Mapagmahal sa may Kapansanan Award: SM Program on Disability Affairs.
- Apolinario Mabini Gold Award for Disabled-Friendly Establishment of the Year: SM City Marikina
- Apolinario Mabini Silver Award for Disabled-Friendly Establishment of the Year: SM Megamall and SM City Lanang.
- Apolinario Mabini Bronze Award for Disabled-Friendly Establishment of the Year: SM City Olongapo, SM City Molino, SM Marketmall Dasmariñas, SM City Consolacion and SM City General Santos

INVESTMENTS CORPORATION

CORPORATE INFORMATION

COMPANY HEADQUARTERS
10th Floor, OneE-com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300
Philippines

EXTERNAL AUDITOR
SyCip, Gorres, Velayo & Co. CPAs

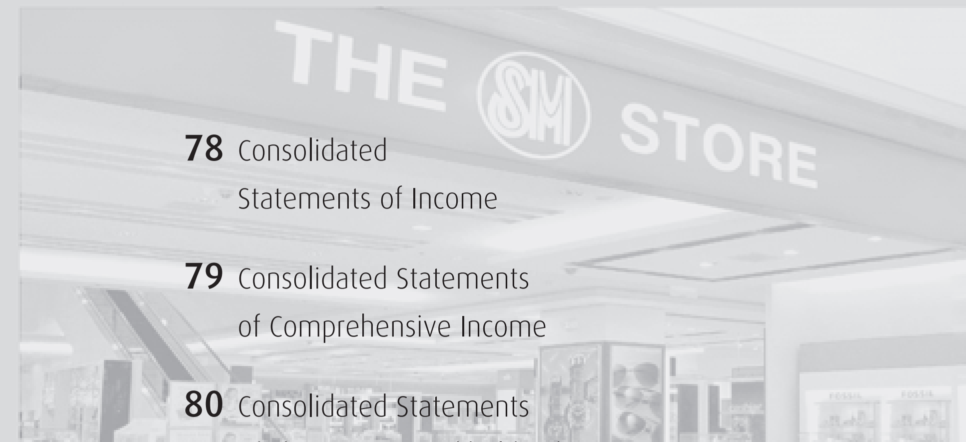
STOCKHOLDER INQUIRIES
SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

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

BDO UNIBANK, INC. - TRUST AND INVESTMENTS GROUP
BDO Corporate Center
7899 Makati Avenue
Makati City 0726
Philippines
T: (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54

INVESTOR RELATIONS
T: (632) 857-0100
E: ir@sminvestments.com
www.sminvestments.com

Financial Statements


Calendar Year Ended December 31, 2013 and 2012

Results of Operation
(amounts in billion pesos)

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

Consolidated revenues grew by 13.1% to ₱253.3 billion, as against last year's ₱223.8 billion. Income from operations increased by 9.4% to ₱51.3 billion from last year's ₱46.8 billion. Operating income margin and net profit margin is at 20.2% and 10.8%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2013 increased by 11.2% to ₱27.4 billion compared to ₱24.7 billion of the same period last year.

Retail sales accounts for 71.4% or ₱180.9 billion of the total revenues for the year. Consolidated retail sales grew by 13.8% from ₱158.9 billion to ₱180.9 billion for the year ended December 31, 2013. The increase is attributable to the acquisition of Waltermart stores in 2013 as well as the opening of the following new stores in 2013:

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

Of the ₱180.9 billion and ₱158.9 billion retail sales in 2013 and 2012, respectively, the non-food group and food group contributed 40.6% and 59.4%, respectively in 2013 and 43.8% and 56.2%, respectively in 2012.

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

Real estate sales for the year ended December 31, 2013, derived mainly from SM Development Corporation, amounted to ₱21.2 billion or a decrease of 5.6% compared to last year of ₱22.5 billion. The decrease in real estate sales is primarily due to lower sales take up of projects in 2013 compared to last year. This is attributable to project launches in 2010 and 2011 which were more "blockbusters" namely, Shell, Green and Jazz compared to launches in 2012 of Breeze and Grace. Projects launched in the last quarter of 2013, namely: Grass Phase 2, Shore and Trees are expected to contribute significantly to revenues starting in 2014.

Rent revenue for the year ended December 31, 2013, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.1% to ₱27.9 billion in 2013 from ₱24.7 billion in 2012. SM Prime is the country's leading shopping mall developer and operator which owns 48 malls in the Philippines with a total gross floor area of 6.2 million square meters and five malls in China with a total gross floor area of 0.8 million square meters as of December 31, 2013. The increase in rental revenues is primarily due to the full-year effect of new malls opened in 2012 namely SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier, and the opening in 2013 of SM Aura Premier. Excluding the new malls and expansions, rental revenues grew 7.0%. The full year recognition of revenues from TwoE-Com, which began operations in mid-2012 and is now 98% occupied, also helped push up rental revenues from commercial operations.

For the year 2013, cinema ticket sales and amusement revenues increased by 2.5% to ₱4.9 billion in 2013 from ₱4.8 billion in 2012 largely due to the opening of additional digital cinemas at the new malls, opening of new amusement rides in SM by the Bay and the Sky Ranch in Tagaytay. Amusement revenues is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 50.4% to ₱13.6 billion in 2013 from ₱9.0 billion in 2012, primarily due to the 56% increase in net income of BDO to ₱22.6 billion, in an environment marked by high system liquidity and volatility in the capital markets. BDO's primary commercial banking businesses continued its robust growth with net interest income leading the way with a 20% rise, customer loans expanding 19% and an upsurge of 44% on total deposits led by steady growth in low-cost deposits as well as the inflow of maturing Special Deposit Accounts (SDA) funds from the Bangko Sentral ng Pilipinas (BSP). Further, non-interest income increased by 30% on the double digit expansion in both fee based income and trading and foreign exchange gains. BDO's continued branch expansion enabled it to keep cost of funds tempered with low cost deposits growing over 20%. With the Philippine economy expected to sustain its growth momentum in 2014, BDO is fully equipped to realize the promising growth opportunities in its customer segments by capitalizing on its established business franchise and wide distribution network.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading increased to ₱0.1 billion in 2013 from ₱0.002 billion in 2012 primarily due to the gain on sale of available-for-sale investments of the Group in 2013.

Dividend income increased by ₱0.3 billion or 40.6% in 2013 to ₱0.9 billion from ₱0.6 billion in 2012 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by ₱0.3 billion or 29.2% from ₱1.1 billion in 2012 to ₱1.4 billion in 2013 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues remained at ₱2.2 billion in 2013 and 2012.

Total cost and expenses went up by 14.1% to ₱202.0 billion for the year ended December 31, 2013 compared to 2012. Retail cost of sales increased by 17.7% from ₱117.9 billion to ₱138.7 billion mainly due to the increase in retail sales. Real estate cost of sales decreased by 13.3% from ₱14.1 billion to ₱12.2 billion due primarily to lower recognized real estate costs in line with lower recognized real estate sales in 2013 and tighter cost controls during project engineering and stricter monitoring of project costs which resulted to improved gross margins. Selling, general and administrative expenses increased by 13.5% from P45.0 billion in 2012 to ₱51.0 billion in 2013. The increase is primarily associated with mall expansions, new malls, department stores, supermarkets, hypermarkets, SaveMore and WalterMart stores, as well as store renovations and current real estate projects.

Other charges of ₱7.7 billion in 2013 increased by 28.6% or ₱1.8 billion from last year's ₱5.9 billion. Gain on disposal of investments and properties decreased by 58.0% to ₱0.5 billion in 2013 from ₱1.3 billion in 2012 due mainly to the deferred gain on Belle-PLAI share swap that was realized in 2012. Gain (loss) on fair value changes on derivatives decreased by 28.9% to ₱1.0 billion in 2013 from ₱1.4 billion in 2012 resulting mainly from the fair value changes of the embedded derivatives related to the US$250.0 million convertible bonds of SM Investments Corporation in 2013 (refer to Note 20 of the consolidated financial statements). Interest expense increased by 1.2% or ₱0.1 billion to ₱10.9 billion in 2013 from ₱10.8 billion in 2012. Interest income decreased by 16.0% to ₱3.7 billion in 2013 from ₱4.4 billion in 2012 due mainly from the decrease in interest rates and lower average balance of temporary investments in 2013 compared to 2012. Foreign exchange gains decreased by 89.5% from ₱0.6 billion in 2012 to ₱0.1 billion in 2013 due mainly to the increase in foreign exchange rate to ₱44.395:US$1.00 in 2013 from ₱41.05:US$1.00 in 2012.

Provision for income tax decreased by 17.2% to ₱5.4 billion for the year 2013 from ₱6.5 billion in 2012 resulting mainly from the SM Property group restructuring transaction.

Non-controlling interests increased by 11.0% to ₱10.8 billion in 2013 from ₱9.7 billion in 2012 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

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

On the Balance Sheet side, consolidated total assets as of December 31, 2013 amounted to ₱633.0 billion, higher by 12.7% from ₱561.8 billion in the previous year. On the other hand, consolidated total liabilities grew by 10.9% to ₱332.8 billion in 2013 from ₱300.2 billion in the previous year.

Total current assets increased by 11.7% to ₱162.9 billion as of December 31, 2013 from ₱145.9 billion as of last year. Cash and cash equivalents decreased by 17.3% to ₱50.2 billion in 2013 from ₱60.7 billion in 2012 while Time deposits and Short term investments decreased by 0.6% to ₱28.9 billion in 2013 from ₱29.1 billion in 2012 due mainly to payment of bank loans, capital expenditures and new investments. Investments held for trading and sale decreased by 60.8% to ₱1.1 billion in 2013 from ₱2.9 billion in 2012 due to maturity of certain investments in bonds. Receivables increased by 62.8% to ₱26.6 billion from P16.4 billion due primarily to increase in Receivable from tenants and real estate buyers. Other current assets increased by 82.6% to ₱42.8 billion in 2013 from ₱23.4 billion in 2012 resulting mainly from the reclassification to current from noncurrent of ongoing land and development projects of the property group and increase in condominium units for sale, input tax and other prepayments.

Total noncurrent assets amounted to ₱470.1 billion as of December 31, 2013, an increase of 13.0% from last year's ₱415.9 billion. Investments in shares of stock of associates and joint ventures increased by 8.2% or ₱10.6 billion to ₱139.0 billion from ₱128.4 billion due mainly to additional investments in associates and joint ventures, and equity share in the net income of a bank associate. The increase in Investment properties and Property and equipment by 28.4% or ₱42.6 billion and 6.6% or ₱1.1 billion, respectively, arose from new mall constructions and new store openings. Deferred tax assets increased by 238.4% to ₱2.2 billion in 2013 from ₱0.6 billion in 2012 resulting mainly from the SM Property Group restructuring transaction. Other noncurrent assets increased by 2.5% to ₱28.4 billion from ₱27.8 billion while Intangibles increased by 31.9% to ₱20.2 billion from ₱15.4 billion resulting mainly from goodwill recognized from business combinations. These were partially offset by the decrease in Available-for-sale investments by 2.4% and by the decrease in Land and development by ₱4.5 billion or 15% to ₱25.7 billion in 2013 from ₱30.2 billion in 2012 due mainly from the reclassification of ongoing projects to current portion. The 8.0% or ₱2.4 billion decrease in Time deposits represents reclassification to current portion of maturing time deposits.

Total current liabilities increased by 25.7% to ₱132.1 billion as of December 31, 2013 mainly due to increase in accounts payable and other current liabilities by 17.7% to ₱68.1 billion in 2013 from ₱57.9 billion in 2012 mainly arising from trade transactions, payables to mall and residential contractors and suppliers related to ongoing projects and accrued operating expenses. Bank loans decreased by 13.2% or ₱4.2 billion to ₱27.6 billion in 2013 from ₱31.8 billion in 2012 due to settlement of loans. See Note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 9.4% to ₱1.6 billion in 2013 from ₱1.5 billion in 2012 due mainly to higher taxable income in 2013. The 149.4% or ₱20.7 billion increase in Current portion of long-term debt is due mainly to the reclassification from Long-term debt of loans which will mature in 2014. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. The 116.1% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total noncurrent liabilities increased by 2.9% or ₱5.6 billion to ₱200.7 billion in 2013 from ₱195.1 billion in 2012. Long-term debt – net of current portion increased by ₱1.1 billion or 0.6% to ₱175.6 billion in 2013 from ₱174.5 billion in 2012. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. Noncurrent derivative liability decreased by ₱0.08 billion to ₱0.16 billion in 2013 from ₱0.24 billion 2012 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans. The ₱2.4 billion or 53.4% increase in deferred tax liabilities arose from capitalized borrowing costs, unrealized gross profit on sale of real estate, fair value gain on investment property, unrealized foreign exchange gains and accrued rental income. Tenants' deposits and others increased by 14.1% to ₱18.0 billion in 2013 from ₱15.7 billion in 2012 due mainly to new malls and expansions and new condominium projects of the real estate group.

Total equity amounted to ₱300.2 billion as of December 31, 2013, while total Equity attributable to owners of the parent amounted to ₱219.4 billion. Additional paid-in capital increased by ₱14.9 billion or 34.9% to ₱57.8 billion in 2013 from ₱42.9 billion in 2012 due mainly to the conversion of US$ bonds to SMIC shares amounting to ₱8.4 billion and top-up placement amounting to ₱6.4 billion. The ₱0.3 billion increase in Equity adjustments from business combination under common control resulted from the SM Property Group restructuring transaction. The ₱1.0 billion increase in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine Peso and from unrealized mark-to-market gains on cross currency swap transactions designated as a cash flow hedge. Cost of common shares held by a subsidiary decreased to ₱0.02 billion from ₱0.1 billion due mainly to the disposal by subsidiaries of parent common shares during the year. The ₱4.4 billion decrease in Net unrealized gain on available-for-sale investments resulted from the decrease in the market value of AFS investments of bank associates. The ₱0.2 billion Remeasurement loss on defined benefit asset/obligation is the result of the valuation of the Group's retirement plan. Non-controlling interests increased by 9.8% to ₱80.8 billion in 2013 from ₱73.6 billion in 2012 due mainly to increase in net assets of certain subsidiaries. See Note 21 to the audited consolidated financial statements for further discussion regarding Equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

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

Key Performance Indicators

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

Accounts	12 / 31/ 2013	12 / 31/ 2012
Current Ratio	1.23	1.39
Asset to Equity Ratio	2.11	2.15
Debt-equity Ratios:		
On Gross Basis	52:48	54:46
On Net Basis	37:63	33:67
Return on Equity	13.5%	14.3%
Net Income to Revenue	10.8%	11.0%
Revenue Growth	13.1%	12.0%
Net Income Growth	11.2%	16.3%
EBITDA *(In Billions of Pesos)*	₱60.8B	₱54.9B
Interest Coverage Ratio	5.2x	5.5x

The current ratio decreased to 1.23 in 2013 from 1.39 in 2012 due to higher increase in currents liabilities of 25.7% as compared to increase in current assets of 11.7%. The asset to equity ratio decreased slightly to 2.11 in 2013 from 2.15 in 2012 due to higher increase in Equity of 14.8% as compared to increase in Total Assets of 12.7%.

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

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

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

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

EBITDA improved by ₱5.9 billion while interest coverage ratio minimally changed to 5.2x in 2013 from 5.5x in 2012 due to higher increase in interest paid of 17.0% compared to increase in EBITDA of 10.7%.

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

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

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 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, appointed by the stockholders has examined the consolidated financial statements of SM Investments Corporation and Subsidiaries in accordance with the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

TERESITA T. SY	**HARLEY T. SY**	**JOSE T. SIO**
Vice Chairperson of the Board	President	Chief Financial Officer

Signed this 3rd day of March 2014.

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

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

Internal Audit

SMIC's Internal Audit has a Charter that defines its roles and responsibilities. Under its Charter the primary purpose of Internal Audit is to provide an independent, objective, reasonable, systematic and disciplined evaluation of the Company's risk management, organization and procedural controls. The Charter requires the Internal Audit to do the following:

- Develop an annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit and Risk Management Committee for review and approval.
- Implement the approved annual audit plan, including special tasks or projects mandated by the Audit and Risk Management Committee.
- Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.
- Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit and Risk Management Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. The Internal Auditor is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Risk Management Committee and Management.

External Audit

The Audit and Risk Management Committee's primary responsibility is to make a well-informed recommendation regarding the appointment, re-appointment or removal of the external auditor. The external auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements. As required by SMIC's Manual on Corporate Governance, the external auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the external auditor.

Enterprise Risk Management

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit and Risk Management Committee. In relation to the Enterprise Risk Management Program, the Committee performed the following:

- Approved the Policy on Accountability, Integrity and Vigilance (PAIV) which provides for the process and safeguards of elevating concerns to Management on possible violations of anyone in the Company with regard to the Code of Ethics and other Company rules and regulations;
- Established a succession plan for the committee;
- Deliberated with the Internal Auditor and SGV & Co. on the state of risk-based internal controls;
- Prioritized and approved the comprehensive IT Information Security Policy;
- Reviewed the initial results of financial, operations, compliance and hazard risk assessments and mitigation exercises of core business units;
- Tasked Management to initiate an SM Group-wide awareness program on risk management;
- Approved the roll-out of the Enterprise Risk Management Program utilizing the Risk Register template as instrument in documenting and monitoring risks;
- Discussed the legal and regulatory risks of pending bills in Congress, rules from regulators and bills enacted into law that have significant impact to the Company;
- Reviewed and approved the Annual Corporate Governance Report submission, discussed areas for improvement and approved the resulting action plan;
- Reviewed and approved the Updated Code of Ethics; and
- Undertook the SEC-mandated Self-Assessment of the Performance of the Audit Committee under SEC Memorandum Circular No. 4, issued in 2013 and approved the areas of improvement and action plan resulting from said exercise.

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

- The Audit and Risk Management Committee is composed of six (6) members, two of whom are independent directors, namely Mr. Joseph R. Higdon and the Committee Chairman, Mr. Vicente S. Perez, Jr.;
- We met four (4) times in 2013 (on March 6, April 25, August 7 and November 6);

Members	3/6/13	4/25/13	8/7/13	11/6/13	Percentage
Vicente S. Perez, Jr.	√	√	√	√	100
Henry T. Sy, Jr.	√	√	√	√	100
Jose T. Sio	√	√	√	√	100
Corazon I. Morando	√	√	√	√	100
Joseph R. Higdon	√	√	√	√	100
Serafin U. Salvador	√	√	√	√	100

- Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes;
- We have reviewed and approved the following with regard to our Independent Auditor, SGV & Co. and our Internal Auditor:
  - Their respective annual audit plans and strategic direction, scope, risk-based methods and time table;
  - The results of their examinations and action plan to address pending audit issues; and
  - The assessment of internal controls and quality financial reporting;
- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles, relevant pending tax legislation which would impact SM Investments Corporation and its subsidiaries;
- We have reviewed and approved all audit and non-audit services provided by SGV & Co., and related audit fees;
- We have reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors and found that the system is adequate and appropriate;
- We have reviewed and ensured that the Company's related party transactions are conducted at arms' length basis;
- We have discussed the status of the Enterprise Risk Management system roll-out across the listed companies of the SM Group, with initial focus on Financial, Information Technology, Operational and Compliance Risks;
- We have discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standards, and we have received written disclosures and the letter from SGV & Co. as required by prevailing applicable Independence Standards and have discussed with SGV & Co., its independence;
- We have reviewed the financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2013, six month period ended June 30, 2013, and third quarter ended September 30, 2013;
- Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the consolidated audited financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2013.
- We have reviewed and discussed the performance, independence and qualifications of the Independent Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2014.

26 February 2014

Vicente S. Perez, Jr.*
Chairman

Henry T. Sy, Jr.
Member

Jose T. Sio
Member

Atty. Corazon I. Morando
Member

Joseph R. Higdon*
Member

Serafin U. Salvador
Member

Atty. Emmanuel C. Paras
Corporate Secretary

*Independent Director

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation

We have audited the accompanying consolidated financial statements of SM Investments Corporation 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 policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 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 with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 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

March 3, 2014

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 29 and 30)	**₱50,209,657**	₱60,714,720
Time deposits and short-term investments (Notes 8, 29 and 30)	**28,912,650**	29,090,335
Investments held for trading and sale (Notes 9, 29 and 30)	**1,118,980**	2,854,541
Receivables (Notes 10, 29 and 30)	**26,637,734**	16,365,552
Merchandise inventories - at cost (Note 23)	**13,232,308**	13,402,762
Other current assets (Notes 11, 29 and 30)	**42,827,624**	23,458,208
Total Current Assets	**162,938,953**	145,886,118
Noncurrent Assets		
Available-for-sale investments (Notes 12, 29 and 30)	**16,499,092**	16,912,646
Investments in shares of stock of associates and joint ventures (Note 13)	**138,994,366**	128,453,744
Time deposits (Notes 8, 29 and 30)	**27,080,950**	29,432,850
Property and equipment (Note 14)	**18,323,380**	17,186,517
Investment properties (Notes 15 and 20)	**192,609,189**	149,970,690
Land and development (Note 16)	**25,666,930**	30,197,862
Intangibles (Note 17)	**20,255,055**	15,354,200
Deferred tax assets - net (Note 27)	**2,172,799**	642,105
Other noncurrent assets (Notes 17, 29 and 30)	**28,453,455**	27,767,236
Total Noncurrent Assets	**470,055,216**	415,917,850
	₱632,994,169	₱561,803,968
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 29 and 30)	**₱27,588,259**	₱31,793,975
Accounts payable and other current liabilities (Notes 19, 29 and 30)	**68,088,327**	57,865,876
Income tax payable	**1,612,784**	1,474,045
Current portion of long-term debt (Notes 20, 29 and 30)	**34,566,619**	13,859,558
Dividends payable (Notes 29 and 30)	**210,189**	97,282
Total Current Liabilities	**132,066,178**	105,090,736
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15, 20, 22, 29 and 30)	**175,589,418**	174,532,871
Derivative liabilities (Notes 29 and 30)	**159,974**	244,330
Deferred tax liabilities - net (Note 27)	**6,970,527**	4,542,918
Tenants' deposits and others (Notes 15, 26, 29 and 30)	**17,967,224**	15,748,135
Total Noncurrent Liabilities	**200,687,143**	195,068,254
Total Liabilities	**332,753,321**	300,158,990
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**7,962,723**	6,229,746
Additional paid-in capital (Note 21)	**57,799,360**	42,858,920
Equity adjustments from common control transactions (Note 21)	**(2,584,210)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 21)	**(25,386)**	(125,906)
Cumulative translation adjustment of a subsidiary	**1,233,177**	266,915
Remeasurement loss on defined benefit asset/obligation (Note 26)	**(195,074)**	–
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**7,338,500**	11,718,559
Retained earnings (Note 21):		
Appropriated	**27,000,000**	35,000,000
Unappropriated	**120,904,727**	94,458,694
Total Equity Attributable to Owners of the Parent	**219,433,817**	188,074,132
Non-controlling Interests	**80,807,031**	73,570,846
Total Equity	**300,240,848**	261,644,978
	₱632,994,169	₱561,803,968

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2013	2012	2011
REVENUE			
Sales:			
Merchandise	**₱180,873,042**	₱158,888,415	₱148,182,071
Real estate	**21,242,138**	22,499,679	17,215,075
Rent (Notes 15, 22 and 28)	**27,929,390**	24,695,579	20,832,729
Equity in net earnings of associates and joint ventures (Note 13)	**13,602,269**	9,042,034	6,415,424
Cinema ticket sales, amusement and others	**4,945,795**	4,824,228	4,138,053
Management and service fees (Note 22)	**1,437,561**	1,112,302	880,679
Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 9, 12 and 30)	**141,163**	2,055	44,368
Dividend income (Note 22)	**883,494**	628,385	368,919
Others	**2,237,952**	2,184,597	1,838,330
	253,292,804	223,877,274	199,915,648
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 23)	**138,720,368**	117,896,688	112,192,756
Real estate	**12,243,534**	14,124,779	10,289,007
Selling, general and administrative expenses (Note 24)	**51,043,797**	44,978,822	40,412,750
	202,007,699	177,000,289	162,894,513
OTHER INCOME (CHARGES)			
Interest expense (Notes 25 and 29)	**(10,943,401)**	(10,811,736)	(8,836,013)
Interest income (Note 25)	**3,709,484**	4,416,746	4,274,640
Gain on disposal of investments and properties - net (Note 15)	**546,552**	1,301,888	2,623,864
Gain (loss) on fair value changes on derivatives - net (Notes 20 and 30)	**(997,576)**	(1,403,411)	366,154
Foreign exchange gain - net (Note 29)	**59,411**	565,132	242,862
	(7,625,530)	(5,931,381)	(1,328,493)
INCOME BEFORE INCOME TAX	**43,659,575**	40,945,604	35,692,642
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**7,367,602**	6,453,836	5,534,187
Deferred	**(1,947,105)**	91,250	(39,369)
	5,420,497	6,545,086	5,494,818
NET INCOME	**₱38,239,078**	₱34,400,518	₱30,197,824
Attributable to			
Owners of the Parent (Note 31)	**₱27,445,682**	₱24,674,381	₱21,224,592
Noncontrolling interests	**10,793,396**	9,726,137	8,973,232
	₱38,239,078	₱34,400,518	₱30,197,824
Earnings Per Common Share (Note 31)			
Basic	**₱34.85**	₱31.76	₱27.57
Diluted	**34.85**	31.76	27.55

See accompanying Notes to Consolidated Financial Statements.

SM Investments Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2013	2012	2011
NET INCOME	**₱38,239,078**	₱34,400,518	₱30,197,824
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Share in unrealized gain (loss) on available-for-sale investments of associates - net (Notes 12 and 13)	**(2,756,754)**	1,514,343	440,127
Net unrealized gain (loss) on available-for-sale investments (Note 12)	**2,290,960**	4,753,031	(434,299)
Cumulative translation adjustment of a subsidiary	**892,452**	(205,702)	177,178
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**(2,841,627)**	3,772	207,106
	(2,414,969)	6,065,444	390,112
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement loss on defined benefit obligation (Note 26)	**(201,304)**	–	–
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**60,391**	–	–
	(140,913)	–	–
TOTAL COMPREHENSIVE INCOME	**₱35,683,196**	₱40,465,962	₱30,587,936
Attributable to			
Owners of the Parent	**₱23,836,811**	₱29,223,730	₱21,573,362
Non-controlling interests	**11,846,385**	11,242,232	9,014,574
	₱35,683,196	₱40,465,962	₱30,587,936

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in Thousands, Except Per Share Data)

	Equity Attributable to Owners of the Parent											
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments	Remeasurement Loss on Defined Benefit Asset / Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	**₱6,229,746**	**₱42,858,920**	**(₱2,332,796)**	**(₱125,906)**	**₱266,915**	**₱11,718,559**	**₱–**	**₱35,000,000**	**₱94,458,694**	**₱188,074,132**	**₱73,570,846**	**₱261,644,978**
Net income for the year	–	–	–	–	–	–	–	–	**27,445,682**	**27,445,682**	**10,793,396**	**38,239,078**
Other comprehensive income	–	–	–	–	**966,262**	**(4,380,059)**	**(195,074)**	–	–	**(3,608,871)**	**1,052,989**	**(2,555,882)**
Total comprehensive income for the year	–	–	–	–	**966,262**	**(4,380,059)**	**(195,074)**	–	**27,445,682**	**23,836,811**	**11,846,385**	**35,683,196**
Issuance of Parent common shares (Note 21)	**156,404**	**14,802,328**	–	–	–	–	–	–	–	**14,958,732**	–	**14,958,732**
Disposal of Parent common shares held by subsidiaries (Note 21)	–	**138,112**	–	**100,520**	–	–	–	–	–	**238,632**	–	**238,632**
Cash dividends - ₱11.80 a share (Note 21)	–	–	–	–	–	–	–	–	**(7,423,076)**	**(7,423,076)**	–	**(7,423,076)**
Stock dividends (Note 21)	**1,576,573**	–	–	–	–	–	–	–	**(1,576,573)**	–	–	–
Reversal of appropriation during the year (Note 21)	–	–	–	–	–	–	–	**(8,000,000)**	**8,000,000**	–	–	–
Increase in noncontrolling interests	–	–	–	–	–	–	–	–	–	–	**1,830,497**	**1,830,497**
Common control transactions (Notes 5 and 21)	–	–	**(251,414)**	–	–	–	–	–	–	**(251,414)**	**(2,083,843)**	**(2,335,257)**
Cash dividends received by noncontrolling interests	–	–	–	–	–	–	–	–	–	–	**(4,356,854)**	**(4,356,854)**
Balance at December 31, 2013	**₱7,962,723**	**₱57,799,360**	**(₱2,584,210)**	**(₱25,386)**	**₱1,233,177**	**₱7,338,500**	**(₱195,074)**	**₱27,000,000**	**₱120,904,727**	**₱219,433,817**	**₱80,807,031**	**₱300,240,848**
Balance at December 31, 2011	₱6,121,640	₱35,536,615	(₱2,332,796)	(₱263,195)	₱428,058	₱7,008,067	₱–	₱5,000,000	₱106,167,942	₱157,666,331	₱64,620,530	₱222,286,861
Net income for the year	–	–	–	–	–	–	–	–	24,674,381	24,674,381	9,726,137	34,400,518
Other comprehensive income	–	–	–	–	(161,143)	4,710,492	–	–	–	4,549,349	1,516,095	6,065,444
Total comprehensive income for the year	–	–	–	–	(161,143)	4,710,492	–	–	24,674,381	29,223,730	11,242,232	40,465,962
Issuance of Parent common shares (Note 21)	108,106	7,216,451	–	–	–	–	–	–	–	7,324,557	–	7,324,557
Disposal of Parent common shares held by subsidiaries (Note 21)	–	105,854	–	137,289	–	–	–	–	–	243,143	52,402	295,545
Cash dividends - ₱10.40 a share (Note 21)	–	–	–	–	–	–	–	–	(6,383,629)	(6,383,629)	–	(6,383,629)
Appropriation during the year (Note 21)	–	–	–	–	–	–	–	30,000,000	(30,000,000)	–	–	–
Decrease in noncontrolling interests	–	–	–	–	–	–	–	–	–	–	(235,336)	(235,336)
Cash dividends received by noncontrolling interests	–	–	–	–	–	–	–	–	–	–	(2,108,982)	(2,108,982)
Balance at December 31, 2012	₱6,229,746	₱42,858,920	(₱2,332,796)	(₱125,906)	₱266,915	₱11,718,559	₱–	₱35,000,000	₱94,458,694	₱188,074,132	₱73,570,846	₱261,644,978
Balance at December 31, 2010	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)	₱289,260	₱6,798,095	₱–	₱5,000,000	₱90,475,674	₱141,543,064	₱56,274,415	₱197,817,479
Net income for the year	–	–	–	–	–	–	–	–	21,224,592	21,224,592	8,973,232	30,197,824
Other comprehensive income	–	–	–	–	138,798	209,972	–	–	–	348,770	41,342	390,112
Total comprehensive income for the year	–	–	–	–	138,798	209,972	–	–	21,224,592	21,573,362	9,014,574	30,587,936
Issuance of Parent common shares	1,814	80,415	–	–	–	–	–	–	–	82,229	–	82,229
Cash dividends - ₱9.04 a share	–	–	–	–	–	–	–	–	(5,532,324)	(5,532,324)	–	(5,532,324)
Increase in noncontrolling interests	–	–	–	–	–	–	–	–	–	–	1,562,422	1,562,422
Cash dividends received by noncontrolling interests	–	–	–	–	–	–	–	–	–	–	(2,230,881)	(2,230,881)
Balance at December 31, 2011	₱6,121,640	₱35,536,615	(₱2,332,796)	(₱263,195)	₱428,058	₱7,008,067	₱–	₱5,000,000	₱106,167,942	₱157,666,331	₱64,620,530	₱222,286,861

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱43,659,575**	₱40,945,604	₱35,692,642
Adjustments for:			
Interest expense (Note 25)	**10,943,401**	10,811,736	8,836,013
Depreciation and amortization (Notes 14, 15 and 24)	**9,513,584**	8,057,871	7,193,100
Equity in net earnings of associates (Note 13)	**(13,602,269)**	(9,042,034)	(6,415,424)
Interest income (Note 25)	**(3,709,484)**	(4,416,746)	(4,274,640)
Gain on disposal of investments and properties - net (Notes 15 and 21)	**(546,552)**	(1,301,888)	(2,623,864)
Loss (gain) on fair value changes on derivatives - net (Note 30)	**997,576**	1,403,411	(366,154)
Gain on available-for-sale investments and fair value changes on investments held for trading - net (Notes 12 and 31)	**(141,163)**	(2,055)	(44,368)
Dividend income	**(883,494)**	(628,385)	(368,919)
Unrealized foreign exchange loss (gain)	**1,213,565**	(93,811)	190,586
Provision for (reversal of) impairment loss (Notes 10, 11 and 13)	**(1,018,156)**	(2,743,711)	72,567
Income before working capital changes	**46,426,583**	42,989,992	37,891,539
Decrease (increase) in:			
Land and development	**(20,763,530)**	(13,700,945)	(14,042,798)
Merchandise inventories	**870,608**	33,694	(2,950,553)
Receivables	**(2,268,025)**	(1,809,471)	(1,861,758)
Other current assets	**(6,220,848)**	(6,043,200)	(405,838)
Increase (decrease) in:			
Accounts payable and other current liabilities	**14,279,355**	13,469,449	4,362,657
Tenants' deposits and others	**3,600,244**	2,390,156	1,300,123
Defined benefit liability (Note 27)	**126,011**	(48,178)	(101,787)
Net cash generated from operations	**36,050,398**	37,281,497	24,191,585
Income tax paid	**(7,220,176)**	(6,314,700)	(5,390,172)
Net cash provided by operating activities	**28,830,222**	30,966,797	18,801,413
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments in shares of stock of associates	**1,108,036**	1,870,174	289,416
Property and equipment	**374,196**	161,834	265,060
Investment properties	**8,596**	236,210	141,361
Available-for-sale investments and held for trading	**1,646,038**	2,233,812	84,604
Additions to:			
Investment properties (Note 15)	**(25,885,092)**	(27,932,103)	(21,140,911)
Investments in shares of stock of associates and joint ventures	**(5,492,653)**	(28,261,006)	(7,109,378)
Property and equipment (Note 14)	**(5,131,795)**	(6,614,570)	(4,791,062)
Available-for-sale investments	**–**	(3,237,646)	(1,619,334)
Time deposits	**–**	(23,005,702)	–
Decrease in:			
Other noncurrent assets	**4,817,513**	1,984,796	1,923,878
Pledged time deposits	**5,572,971**	–	–
Interest received	**3,924,505**	4,208,464	4,152,181
Acquisition of subsidiaries, net of cash acquired (Note 5)	**(16,750,597)**	–	–
Dividends received	**4,758,493**	795,953	1,910,255
Net cash used in investing activities	**(31,049,789)**	(77,559,784)	(25,893,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**66,196,550**	71,638,384	27,594,082
Bank loans	**60,249,390**	62,039,335	23,428,370
Payments of:			
Long-term debt	**(47,783,598)**	(14,495,495)	(21,874,200)
Bank loans	**(70,185,745)**	(55,910,180)	(18,228,800)
Interest	**(11,608,952)**	(9,918,610)	(8,747,952)
Dividends	**(13,243,597)**	(8,421,026)	(7,761,796)
Proceeds from issuance of new common shares (Note 21)	**6,424,666**	6,329,678	–
Disposal of Parent common shares held by subsidiaries (Note 21)	**100,520**	295,546	–
Increase (decrease) in noncontrolling interests	**1,830,497**	(235,336)	1,562,422
Net cash provided by (used in) financing activities	**(8,020,269)**	51,322,296	(4,027,874)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,239,836)**	4,729,309	(11,120,391)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(265,227)**	(64,911)	209,703
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**60,714,720**	56,050,322	66,961,010
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱50,209,657**	₱60,714,720	₱56,050,322

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 3, 2014.

2. Basis of Preparation and Statement of Compliance

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

Statement of Compliance
The consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including the interpretations issued by the Philippine Financial Reporting Standards Council (PFRSC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at December 31, 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect to those returns through its power over the investee. Specifically, the Group controls an investee, if and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries. The subsidiaries listed below were all incorporated in the Philippines.

		Percentage of Ownership			
		2013		2012	
Company	Principal Activities	Direct	Indirect	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	51	–	22	41
SM Land, Inc. (SM Land) and Subsidiaries*:	Real estate development	–	–	67	–
SM Development Corporation (SMDC) and Subsidiaries	Real estate development	–	100	–	65
Magenta Legacy, Inc. (Magenta)	Real estate development	–	100	–	99
Associated Development Corporation	Real estate development	–	100	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	100	–	–
Summerhills Home Development Corp. (SHDC)	Real estate development	–	100	–	–
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	–	100	–	–
Costa del Hamilo, Inc.	Real estate development	–	100	–	100
Prime Metro Estate, Inc. (PMI)	Real estate development	–	100	10	90
Rappel Holdings, Inc. (Rappel) and Subsidiaries	Real estate development	–	100	100	–
SM Arena Complex Corporation	Conventions	–	100	100	–
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	Hotel and tourism	–	100	100	–
Tagaytay Resort Development Corporation	Real estate development	–	100	33	25
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	Real estate development	100	–	100	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.) and Subsidiaries	Real estate development	59	40	59	–
Intercontinental Development Corporation (ICDC)	Real estate development	97	3	72	28
Prime Central, Inc. (Prime Central) and Subsidiaries	Real estate development	100	–	100	–
Bellevue Properties, Inc.	Real estate development	62	–	62	–
Net Group (see Note 5)	Real estate development	90	–	–	–
Sto. Roberto Marketing Corp.	Real estate development	100	–	–	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	100	–	100	–
Retail					
SM Retail, Inc. (SM Retail) and Subsidiaries	Retail	100	–	100	–
Others					
Primebridge Holdings, Inc. (Primebridge)	Investment	80	20	80	20
Asia Pacific Computer Technology Center, Inc.	Education	52	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	91	–	91	–
Henfels Investments Corp.	Investment	99	–	99	–

**On October 10, 2013, SM Land was merged with SM Prime via a share-for-share swap*

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling interest holds 49% and 51% as at December 31, 2013 and 2012, respectively.

The summarized financial information of SM Prime are provided below. This information is based on amounts before inter-company eliminations.

Summarized Consolidated Statements of Financial Position

	December 31	
	2013	2012
	(In Thousands)	
Total current assets	₱85,685,323	₱68,262,333
Total noncurrent assets	249,898,359	216,389,783
Total current liabilities	56,882,069	47,892,141
Total noncurrent liabilities	112,506,024	86,297,990
Total equity	₱166,195,589	₱150,461,985
Attributable to:		
Owners of the Parent	₱84,759,750	₱94,791,051
Non-controlling interests	81,435,839	55,670,934
	₱166,195,589	₱150,461,985

Summarized Consolidated Statements of Income

	Years Ended December 31		
	2013	2012	2011
		(In Thousands)	
Revenue	₱59,794,410	₱57,215,094	₱50,069,243
Costs and expenses	35,658,865	35,145,277	30,771,982
Other income (charges)	(3,425,454)	(1,635,923)	(2,254,419)
Income before income tax	20,710,091	20,433,894	17,042,842
Provision for income tax	3,984,163	3,790,461	3,040,709
Net income	₱16,725,928	₱16,643,433	₱14,002,133
Attributable to:			
Owners of the Parent	₱8,530,223	₱10,485,363	₱8,821,344
Non-controlling interests	8,195,705	6,158,070	5,180,789
	₱16,725,928	₱16,643,433	₱14,002,133

Summarized Consolidated Statements of Cash Flows

	Years Ended December 31		
	2013	2012	2011
		(In Thousands)	
Operating	₱22,184,513	₱6,587,695	₱11,623,633
Investing	(30,238,315)	(20,527,706)	(15,513,817)
Financing	13,865,755	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	₱3,954,056	(₱6,988,255)

3. Summary of Significant Accounting Policies, Changes and Improvements

The principal accounting adopted in the preparation of the consolidated financial statements are as follows:

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.

Time Deposits and Short-term Investments
Time deposits and short-term investments are cash placements, shown under current assets, with original maturities of more than three months but less than one year. Time deposits which will mature twelve months after the reporting period are presented under noncurrent assets.

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

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

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

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 Group 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 Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Group 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 cost.

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, 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. Gains or losses on investments held for trading are recognized in the consolidated statement of income under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account. Interest income earned on investment held for trading are recognized in "Interest income" account in the consolidated statement of income.

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

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

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

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

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

The Group's cash and cash equivalents, time deposits and short-term investments (including noncurrent portion) and receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), receivable from a related party and long-term notes (included under "Other noncurrrent assets" account) are classified under this category.

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

The Group's investment in quoted Philippine government treasury bonds are classified under this category.

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 statement of comprehensive income under "Net unrealized gain (loss) on available-for-sale investments" account until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within 12 months after the reporting period and as noncurrent assets if expected date of disposal is more than 12 months after the reporting period.

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

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

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

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

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

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

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

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

Redeemable Preferred Shares
In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

The redeemable preferred shares of the Group exhibit the characteristics of a financial liability and are thus recognized as a liability under "Long-term debt" account in the consolidated balance sheets, net of transaction costs. The corresponding dividends on the shares are charged as interest expense in the consolidated statement of income.

Transaction costs are amortized over the maturity period of the preferred shares using the effective interest method.

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

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

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 "Cumulative translation adjustment of a subsidiary" in the consolicated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of income under "Gain (loss) on fair value changes on derivatives" account (see Note 30).

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 "Cumulative translation adjustment of a subsidiary" 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 "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income (see Note 30). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance 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.

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

Land and Development and Condominium Units for Sale
Land and development and condominium units for sale (included under "Other current assets" account in the consolidated balance sheets) 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. Cost includes those costs incurred for development and improvement of the properties.

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

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

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. 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 Group's investments in shares of stock 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 Group's share in net assets of the associate or joint venture.

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

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

b. any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate or joint venture.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate or joint control over a joint venture and accounts for the retained 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 over the associate or joint control over the joint venture, the Group measures and recognizes any retained 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 retained investment and proceeds from disposal is recognized in the consolidated statement of income. When the Group's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Group resumes recognizing its share of the profits only after its share of the profits 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 Parent Company. The accounting policies of the associates and joint ventures conform to those used by the Group for like transactions and events in similar circumstances.

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:

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

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

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

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

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 statement 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, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. 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	3–5 years
Land use rights	40–60 years
Buildings and improvements	10–35 years
Building equipment, furniture and others	3–15 years

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

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

Transfers are made 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 Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Construction in Progress
Construction in progress represents structures under construction and is stated at cost. This includes cost of construction, 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.

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 Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

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

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

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

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statement of income.

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group 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 Merchandise Inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at sales shown in the consolidated statement of income.

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

Sale of Real Estate. The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the 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 Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Tenants' deposits and others" account in the consolidated balance 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 "Tenants' deposits and others" account in the consolidated balance sheets.

Revenue from construction contracts included in the "Revenue from real estate and others" account in the consolidated statement 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.

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

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

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

Marketing Support. Revenue is recognized when the performance and provision of contractually agreed marketing tasks have been rendered and store facilities have been used. Marketing support is shown under "Others" account in the consolidated statement of income.

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 statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the 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.

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

Pension Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (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.

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

Defined benefit costs comprise the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group'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 the Parent Company'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 as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statement of income.

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

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

Capitalized 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 Group will obtain ownership by the end of the lease term.

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

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases 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 Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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

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

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on temporary differences at the end of the 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

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

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

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

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

Business Segments
The Group is organized and managed separately according to the nature of business. The three major operating businesses of the Group are property, retail and financial services and others. These operating businesses are the basis upon which the Group reports its segment information presented in Note 6 to the consolidated financial statements.

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting January 1, 2013. The adoption of the following amended standards and interpretations did not have any impact on the Group's consolidated financial statements, except when otherwise indicated:

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Statements and Financial Liabilities* (Amendments)
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*
- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
- PAS 19, *Employee Benefits (Revised)*
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- 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*
- 2012 improvements to PFRSs, effective 2013.

Adoption of Revised PAS 19
For defined benefit plans, the Revised PAS 19 requires all remeasurements 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 Group 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 Group 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 Group will retain the remeasurements in other comprehensive income and will not transfer this to other items of equity.

The 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.

The 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.

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

The Group reviewed its existing employee benefits and determined that the amended standard has an impact on its accounting for pension benefits. The effect of the adoption of the Revised PAS 19 as at January 1, 2013 amounted to ₱283.7 million. This was recorded in the current year profit or loss as reduction pension benefit expense, instead of a retrospective adjustment as required by the Revised PAS 19, as the impact is not material (see Note 26). On this basis, the Group's consolidated statement of financial position at the beginning of the earliest comparative period was also not presented.

The adoption increased earnings per share by ₱0.36 in 2013 (see Note 31). It did not have impact on the consolidated statement of cash flows for the year ended December 31, 2013.

Future Changes in Accounting Policies
The following are the new standards, interpretations, amendments and improvements to PFRS and Philippine Interpretations that were issued but are not yet effective as at December 31, 2013. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

New Standards and Interpretations

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments). 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 (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27). These amendments are 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 Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21). IFRIC 21 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. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments). The amendments 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 affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- PAS 19, Employee Benefits – *Defined Benefit Plans: Employee Contributions* (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 for annual periods beginning on or after July 1, 2014. The amendments have no impact in the Group's financial position and performance.
- *Annual Improvements to PFRSs (2010-2012 cycle)*

  The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition.* The amendment 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 prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment 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 prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment in future business combinations.
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments 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 are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
  - PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables.* The amendment 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.* The amendment 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 is effective for annual periods beginning on or after July 1, 2014. 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 Group's financial position or performance as it does not have property, plant and equipment carried at revalued amounts.

- PAS 24, *Related Party Disclosures – Key Management Personnel.* The amendments 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 are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization.* The amendments 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 are effective for annual periods beginning on or after July 1, 2014. 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 Group's financial position or performance as it does not have intangible assets carried at revalued amounts.

▪ *Annual Improvements to PFRSs (2011–2013 cycle)*

The Annual Improvements to PFRSs (2011–2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'.* The amendment 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 Group as it is not a first-time adopter of PFRS.
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment 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. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.
- PFRS 13, *Fair Value Measurement – Portfolio Exception.* The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.
- PAS 40, *Investment Property.* The amendment 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. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Group shall consider this amendment in future acquisitions of investment properties.

▪ PFRS 9, *Financial Instruments.* 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 (OCI) 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 OCI. 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 OCI 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 Group'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.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

▪ 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 Group has made an assessment and is continuously monitoring the impact of this new interpretation to its consolidated financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the 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 Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of primary economic environment in which the Parent Company operates.

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

Revenue from real estate sales amounted to ₱21,242.1 million, ₱22,499.7 million and ₱17,215.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

Classification of Property. The Group determines whether a property is classified as investment property, land and development or property and equipment as follows:

▪ Investment property comprises building spaces and improvements which are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
▪ Land and development comprises property that is held for sale in the ordinary course of business in which the Group develops and intends to sell on or before completion of construction.
▪ Property and equipment is held for use in the supply of goods or services or for administrative purposes.

The Group considers each property separately in making its judgment.

The aggregate carrying values of land and development, investment properties and property and equipment amounted to ₱236,599.5 million and ₱197,355.1 million as at December 31, 2013 and 2012, respectively (see Notes 11, 14, 15 and 16).

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

Operating Lease Commitments - Group as Lessor. The Group has entered into commercial property leases in its investment property portfolio. The Group 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 ₱27,929.4 million, ₱24,695.6 million and ₱20,832.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Operating Lease Commitments - Group as Lessee. The Group 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 Group leases under operating lease arrangements, remain with the lessor. Accordingly, the leases were accounted for as operating leases.

Rent expense amounted to ₱7,295.1 million, ₱4,876.3 million and ₱3,463.7 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

Assessing Significant Influence over Associates. Significant influence is presumed when there is a holding of 20% or more of the voting power of the investee (held directly or indirectly, through subsidiaries). Management assessed that the Group has significant influence over all its associates by virtue of the Group's holding more than 20% voting power in the investee, representation on the board of directors, and participation in policy-making processes of the associates.

The carrying value of the investments in associates as at December 31, 2013 and 2012 amounted to ₱133,814.2 million and ₱128,453.7 million, respectively (see Note 13).

Assessing Joint Control of an Arrangement and the Type of Arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

The carrying value of the investment in Waltermart Mall amounted to ₱5,180.2 million as at December 31, 2013 (see Note 13).

Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value. The Group determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Group determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group 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 ₱17,158.3 million and ₱19,307.8 million as at December 31, 2013 and 2012, respectively (see Notes 9 and 12).

Assessing of Control of Investees. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and when it has the ability to affect those returns through its power over the investee.

Net Group. On December 2, 2013, SMIC entered into Shareholders Agreement and Share Purchase Agreement for the acquisition of ownership interest in the Net Group. The acquisition included a purchase of five (5) land-holding companies where SMIC obtained 90% economic interest and 40% voting interest. Management assessed that SMIC has control of these landholding companies as the contracting parties intend to align the voting interest in the land-holding companies to reflect the economic interest in these subsidiaries. SMIC has secured its interest in the land by virtue of its long-term leases on both the buildings and land (see Note 5).

BDO. The Group has 48% ownership interest in BDO which is accounted for as an associate. Management assessed that the Group does not have control of BDO as the Group's voting rights are not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

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

Revenue and Cost Recognition. The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group'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 ₱21,242.1 million, ₱22,499.7 million and ₱17,215.1 million for the years ended December 31, 2013, 2012, and 2011, respectively, while cost of real estate sold amounted to ₱12,243.5 million, ₱14,124.8 million and ₱10,289.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Impairment of Receivables. The Group 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 Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment loss would increase the recorded selling, general and administrative expenses and decrease current and noncurrent assets.

Allowance for impairment loss amounted to ₱340.6 million and ₱161.0 million as at December 31, 2013 and 2012, respectively (see Notes 10 and 11) . Receivables, including non-trade receivables, advances and deposits, accrued interest receivable and receivable from banks and credit cards included under "Other current assets" account and advances for project development, noncurrent portion of receivables from real estate buyers and long-term notes included under "Other noncurrent assets" account, amounted to ₱54,749.1 million and ₱45,312.6 million as at December 31, 2013 and 2012, respectively (see Notes 10, 11 and 17).

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

Allowance for impairment loss amounted to ₱31.2 million and ₱45.1 million as at December 31, 2013 and 2012. The carrying values of AFS investments amounted to ₱17,158.3 million and ₱19,307.8 million as at December 31, 2013 and 2012, respectively (see Notes 9 and 12).

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

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

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

In 2013 and 2012, the Group assessed that the net realizable values of merchandise inventories, condominium units for sale and land and development are higher than cost, hence, the Group did not recognize any losses on write down of the assets. The carrying values of merchandise inventories amounted to ₱13,232.3 million and ₱13,402.8 million as at December 31, 2013 and 2012, respectively (see Note 23). The carrying values of condominium units for sale included under "Other current assets" account amounted to ₱6,213.5 million and ₱2,670.9 million as at December 31, 2013 and 2012, respectively (see Note 11). The carrying values of land and development amounted to ₱38,209.7 million and ₱30,197.9 million as at December 31, 2013 and 2012, respectively (see Notes 11 and 16).

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

The total carrying values of property and equipment and investment properties amounted to ₱210,932.6 million and ₱167,157.2 million as at December 31, 2013 and 2012, respectively (see Notes 14 and 15).

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

The Group reversed impairment loss amounting to ₱775.0 million and ₱3,542.7 million in 2013 and 2012, respectively, and no allowance was recognized for impairment loss in 2013 and 2012. Allowance for impairment loss amounted to nil and ₱775.0 million as at December 31, 2013 and 2012, respectively. The carrying values of investments in shares of stock of associates amounted to ₱133,814.2 million and ₱128,453.7 million as at December 31, 2013 and 2012, respectively (see Note 13).

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

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted ₱20,255.1 million and ₱15,354.2 million as at December 31, 2013 and 2012, respectively (see Note 17).

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. 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 Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

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

Allowance for impairment loss on investment properties amounted to ₱923.2 million as at December 31, 2013 and 2012 (see Note 15). The total carrying values of property and equipment and investment properties amounted to ₱210,932.6 million and ₱167,157.2 million as at December 31, 2013 and 2012, respectively (see Notes 14 and 15).

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

In 2013, the Group acquired 90% ownership interest in Net Group and 51% ownership interest in Waltermart Supermarket, Inc. (WSI). The acquisition was accounted on provisional basis pending determination of the fair value of Net Group's and WSI's net assets as at December 31, 2013 (see Note 5).

In 2011, the Group acquired 17.9% equity interest in Atlas Consolidated Mining and Development Corporation (Atlas). The acquisition was accounted on provisional basis pending the fair value of Atlas' net assets as at December 31, 2011. In 2012, the fair values of the net assets acquired were finalized where the resulting goodwill from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 13).

In 2012, SMIC increased its ownership in Atlas from 17.9% to 28.4%. The goodwill resulting from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 13).

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted ₱20,255.1 million and ₱15,354.2 million as at December 31, 2013 and 2012, respectively (see Note 17).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess 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 Group's deferred tax assets was recognized.

Deferred tax assets recognized in the consolidated balance sheets as at December 31, 2013 and 2012 amounted to ₱2,172.8 million and ₱642.1 million, respectively, while the unrecognized deferred tax assets amounted to ₱304.6 million and ₱1,902.3 million as at December 31, 2013 and 2012, respectively (see Note 27).

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include, among others, discount rate, and rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

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

The Group's defined benefit asset amounted to ₱616.0 million and ₱452.9 million as at December 31, 2013 and 2012, respectively (see Notes 17 and 26). While the Group's defined benefit liability amounted to ₱154.3 million and ₱28.3 million as at December 31, 2013 and 2012, respectively (see Note 26).

Fair Value of Financial Assets and Liabilities. The Group 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 Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and other comprehensive income.

The fair value of financial assets and liabilities are discussed in Note 30.

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

5. Corporate Restructuring and Significant Acquisitions

Corporate Restructuring

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

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

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

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

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

b. Merger of SM Prime and SM Land

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

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

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

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

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

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

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

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

Acquisitions

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

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

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

The acquisition was accounted for based on provisional fair values of the identifiable assets and liabilities as at the date of the acquisition as follows:

	Provisional Fair Values
	(In Thousands)
Cash and cash equivalents	₱926,304
Receivables	894,298
Other current assets	360,997
Property and equipment (see Note 14)	3,125
Investment properties (see Note 15)	18,800,000
Other noncurrent assets	684,141
Total identifiable assets	21,668,865
Less:	
Trade payables and other current liabilities	307,758
Bank loan	5,630,288
Deferred tax liabilities	2,431,755
Other noncurrent liabilities	1,281,597
Total identifiable liabilities	9,651,398
Total identifiable net assets at fair value	₱12,017,467

The amount of purchase consideration is subject to finalization after due diligence.

The Net Group's receivables comprise mainly of lease receivables from tenants amounting to ₱894.3 million which was the carrying value as at acquisition date. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group's consolidated revenue and net income would have increased by ₱1,647.2 million and ₱646.8 million, respectively, for the year ended December 31, 2013 had the acquisition of Net Group taken place on January 1, 2013. Total revenue and net income of Net Group included in the consolidated financial statements for 2013 are immaterial.

WSI. In January and May 2013, SM Retail acquired a total of 193,800,000 shares of WSI equivalent to 51% ownership interest for ₱3,200.0 million. WSI is mainly engaged in the business of trading goods and merchandise. As a result of the acquisition, WSI became a partially-owned subsidiary of the Group. The primary reason for acquiring WSI was to expand the Group's market share through the pre-existing stores of WSI.

The acquisition was accounted for based on provisional fair values of the identifiable assets and liabilities as at the date of the acquisition as follows:

	Provisional Fair Values
	(In Thousands)
Cash and cash equivalents	₱552,991
Receivables	187,710
Inventories	700,154
Other current assets	154,512
Property and equipment (see Note 14)	425,511
Investment properties (see Note 15)	589,126
Other noncurrent assets	26,535
Total identifiable assets	2,636,539
Less:	
Trade payables and other current liabilities	1,349,769
Other liabilities	3,606
Total identifiable liabilities	1,353,375
Total identifiable net assets at fair value	1,283,164
Non-controlling interest measured at proportionate share of the provisional fair value	(628,750)
Goodwill arising from acquisition	2,545,625
Purchase consideration transferred	₱3,200,039

The goodwill of ₱2,545.6 million represents the value of expected synergies arising from the business combination.

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

The Group's consolidated revenue and net income would have increased by ₱3,595.5 million and ₱102.8 million, respectively, for the year ended December 31, 2013 had the acquisition of WSI taken place on January 1, 2013. Total revenue and net income of WSI included in the consolidated financial statements for 2013 are immaterial.

The net cash outflow on the acquisition is as follows

	Amount
	(In Thousands)
Purchase consideration, net of cash acquired (presented as investing activities)	₱2,647,048
Transaction costs (presented as operating activities)	369,931
	₱3,016,979

CHAS Realty and Development Corporation and subsidiaries (CHAS). In January 2013, SM Prime entered into a Binding Share Purchase Agreement for the acquisition of 100% interest in CHAS. CHAS is engaged in the business of shopping mall operations which owns Cabanatuan Megacenter in Nueva Ecija. The primary reason for acquiring CHAS is to expand the Group's mall operations.

In December 2013, SM Prime completed its acquisition of 100% interest in CHAS.
The acquisition was accounted based on provisional fair values of the identifiable assets and liabilities as at the date of the acquisition as follows:

	Provisional Fair Values
	(In Thousands)
Investment properties	₱1,384,990
Cash and other assets	192,261
Total identifiable assets	1,577,251
Less:	
Accounts payable and other current assets	72,259
Deferred tax liabilities	199,098
Total identifiable liabilities	271,357
Total identifiable net assets at fair value	1,305,894
Goowill arising from acquisition	378,721
Purchase consideration transferred	₱1,684,615

The goodwill of ₱378.7 million represents the value of expected synergies arising from the business combination.

The fair value of acquired receivables amounting to ₱73 million approximates their carrying value. No impairment loss was provided on these receivables.

SM Prime'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 taken place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.

The net cash outflow from the acquisition of CHAS amounted to ₱1,572.2 million.

6. Segment Information

For management purposes, the Group is organized into business units based on their products and services. As a result of the corporate restructuring in 2013 (see Note 5), the Group changed the presentation of its segment information and has identified three reportable operating segments as follows: property, retail, and financial services and others. Segment information in the comparative years were restated for this change.

The property segment is involved in mall, residential and commercial development and hotels and convention centers operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

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

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

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 are eliminated in the consolidated financial statements.

Business Segment Data

	2013				
	Property	**Retail**	**Financial Services and Others**	**Eliminations**	**Consolidated**
			(In Thousands)		
Revenue:					
External customers	₱56,109,064	₱183,606,666	₱13,577,074	₱–	₱253,292,804
Inter-segment	6,004,771	117,556	16,101,800	(22,224,127)	–
	₱62,113,835	₱183,724,222	₱29,678,874	(₱22,224,127)	₱253,292,804
Segment results:					
Income before income tax	₱23,672,023	₱8,551,740	₱12,331,124	(₱895,312)	₱43,659,575
Provision for income tax	(3,991,614)	(2,446,033)	289,085	728,065	(5,420,497)
Net income	₱19,680,409	₱6,105,707	₱12,620,209	(₱167,247)	₱38,239,078
Net income attributable to:					
Owners of the Parent	₱19,229,301	₱5,748,922	₱12,620,210	(₱10,152,751)	₱27,445,682
Noncontrolling interests	451,107	356,786	–	9,985,503	10,793,396
Segment assets (excluding deferred tax)	₱352,503,891	₱67,860,354	₱243,699,419	(₱33,242,294)	₱630,821,370
Segment liabilities (excluding deferred tax)	₱173,423,059	₱43,474,968	₱135,992,362	(₱27,107,595)	₱325,782,794
Net cash flows provided by (used in):					
Operating activities	₱8,268,259	(₱3,524,717)	₱289,615	₱23,797,065	₱28,830,222
Investing activities	(11,246,629)	869,427	(5,745,157)	(14,927,430)	(31,049,789)
Financing activities	2,376,377	(1,007,189)	(7,555,018)	(1,834,439)	(8,020,269)
Other information:					
Investments in shares of stock of associates and joint ventures	₱11,965,534	₱129,666	₱126,899,166	₱–	₱138,994,366
Equity in net earnings of associates	1,860,138	39,627	11,702,504	–	13,602,269
Capital expenditures	46,534,815	4,770,987	21,677,367	–	72,983,169
Depreciation and amortization	5,470,283	3,440,348	602,953	–	9,513,584
Reversal of impairment losses	–	–	1,018,156	–	1,018,156

	2012				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱52,609,032	₱161,149,617	₱10,118,625	₱–	₱223,877,274
Inter-segment	11,498,582	89,139	11,891,579	(23,479,300)	–
	₱64,107,614	₱161,238,756	₱22,010,204	(₱23,479,300)	₱223,877,274
Segment results:					
Income before income tax	₱25,528,157	₱9,258,062	₱10,061,252	(₱3,901,867)	₱40,945,604
Provision for income tax	(3,687,017)	(2,708,977)	(149,092)	–	(6,545,086)
Net income	₱21,841,140	₱6,549,085	₱9,912,160	(₱3,901,867)	₱34,400,518
Net income attributable to:					
Owners of the Parent	₱19,828,629	₱6,328,141	₱9,912,160	(₱11,394,549)	₱24,674,381
Noncontrolling interests	2,012,511	220,944	–	7,492,682	9,726,137
Segment assets (excluding deferred tax)	₱300,016,069	₱67,976,666	₱244,318,016	(₱51,148,888)	₱561,161,863
Segment liabilities (excluding deferred tax)	₱133,548,224	₱34,237,153	₱155,030,432	(₱27,199,737)	₱295,616,072
Net cash flows provided by (used in):					
Operating activities	₱5,409,476	₱12,049,628	(₱7,102,048)	₱20,609,741	₱30,966,797
Investing activities	(18,932,325)	(205,184)	(25,153,687)	(33,268,588)	(77,559,784)
Financing activities	16,768,724	(8,195,619)	30,175,999	12,573,192	51,322,296
Other information:					
Investments in shares of stock of associates and joint ventures	₱11,233,223	₱90,039	₱117,130,482	₱–	₱128,453,744
Equity in net earnings (losses) of associates	759,201	(9,961)	8,292,794	–	9,042,034
Capital expenditures	40,384,237	5,642,614	2,220,767	–	48,247,618
Depreciation and amortization	4,552,018	2,858,638	647,215	–	8,057,871
Provision for (reversal of) impairment losses	108,142	–	(2,743,711)	–	(2,635,569)

	2011				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱42,501,490	₱150,472,734	₱6,941,424	₱–	₱199,915,648
Inter-segment	8,159,079	2,883,744	12,815,388	(23,858,211)	–
	₱50,660,569	₱153,356,478	₱19,756,812	(₱23,858,211)	₱199,915,648
Segment results:					
Income before income tax	₱22,195,386	₱8,242,661	₱9,286,422	(₱4,031,827)	₱35,692,642
Provision for income tax	(3,056,020)	(2,360,704)	(82,574)	4,480	(5,494,818)
Net income	₱19,139,366	₱5,881,957	₱9,203,848	(₱4,027,347)	₱30,197,824
Net income attributable to:					
Owners of the Parent	₱18,807,048	₱5,809,110	₱9,203,848	(₱12,595,414)	₱21,224,592
Noncontrolling interests	332,318	72,847	–	8,568,067	8,973,232
Net cash flows provided by (used in):					
Operating activities	₱9,923,580	₱7,656,609	₱4,643,410	(₱3,422,186)	₱18,801,413
Investing activities	(20,372,344)	1,158,138	(271,559)	(6,408,165)	(25,893,930)
Financing activities	1,840,433	(8,154,976)	(7,183,829)	9,470,498	(4,027,874)
Other information:					
Equity in net earnings (losses) of associates and joint ventures	₱522,904	₱–	₱5,892,520	₱–	₱6,415,424
Capital expenditures	32,623,063	4,219,155	3,132,553	–	39,974,771
Depreciation and amortization	4,301,033	2,409,174	482,893	–	7,193,100
Provision for (reversal of) impairment losses	479,775	–	73,611	–	553,386

7. Cash and Cash Equivalents

This account consists of:

	2013	2012
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱10,202,986**	₱6,098,368
Temporary investments (see Notes 18 and 22)	**40,006,671**	54,616,352
	₱50,209,657	₱60,714,720

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 Group, and earn interest at the respective temporary investment rates.

Interest income earned on cash and cash equivalents is disclosed in Note 25.

8. Time Deposits and Short-Term Investments

This account consists of:

	2013	2012
	(In Thousands)	
Time deposits:		
Pledged (see Notes 20 and 22)	**₱21,087,625**	₱19,498,750
Not pledged (see Note 22)	**34,018,075**	38,203,435
	55,105,700	57,702,185
Short-term investments (see Note 22)	**887,900**	821,000
	55,993,600	58,523,185
Less current portion	**28,912,650**	29,090,335
Noncurrent portion	**₱27,080,950**	₱29,432,850

A portion of the time deposits amounting to US$475.0 million, with peso equivalents of ₱21,087.6 million and ₱19,498.8 million as at December 31, 2013 and 2012, respectively and bear interest ranging from 4.1% to 5.4%, are used as collateral for loans obtained by the Group (see Note 20).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱887.9 million and ₱821.0 million as at December 31, 2013 and 2012, respectively, bear a fixed interest rate of 3.24%.

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

9. Investments Held for Trading and Sale

This account consists of:

	2013	2012
	(In Thousands)	
Investments held for trading -		
Bonds (see Note 22)	**₱459,754**	₱459,343
AFS investments (see Note 12):		
Bonds and corporate notes (see Note 22)	**–**	1,733,752
Shares of stock	**659,226**	661,446
	659,226	2,395,198
	₱1,118,980	₱2,854,541

The Group recognized a loss of ₱18.2 million for the year ended December 31, 2013 and a gain of ₱16.3 million and ₱13.4 million from fair value adjustments of investments held for trading for the years ended December 31, 2012 and 2011, respectively. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income.

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

10. Receivables

This account consists of:

	2013	2012
	(In Thousands)	
Trade:		
Real estate buyers	**₱29,150,833**	₱23,373,079
Third-party tenants	**3,329,038**	3,123,358
Related-party tenants (see Note 22)	**2,594,444**	1,512,842
Due from related parties (see Note 22)	**1,334,076**	2,465,971
Management fees (see Note 22)	**433,921**	154,172
Dividends	**766,816**	292,917
Total	**37,609,128**	30,922,339
Less allowance for impairment loss	**334,891**	155,274
	37,274,237	30,767,065
Less noncurrent portion of receivables from real estate buyers (see Note 17)	**10,636,503**	14,401,513
Current portion	**₱26,637,734**	₱16,365,552

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on a 30 to 90 days' term.
- Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years term.
- The terms and conditions of related party receivables are further discussed in Note 22.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss are as follows:

	2013	2012
	(In Thousands)	
Balance at beginning of year	**₱155,274**	₱47,132
Provision for the year (see Note 24)	**179,640**	108,142
Reversal of provision	**(23)**	–
Balance at end of year	**₱334,891**	₱155,274

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

The aging analysis of receivables as at December 31, 2013 and 2012 are as follows:

	December 31, 2013					
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
	(In Thousands)					
Trade:						
Real estate buyers:						
Current	₱17,142,278	₱231,862	₱145,587	₱671,699	₱322,904	₱18,514,330
Noncurrent	10,636,503	–	–	–	–	10,636,503
Related-party tenants	2,594,444	–	–	–	–	2,594,444
Third-party tenants	3,208,416	69,975	38,660	–	11,987	3,329,038
Due from related parties	1,334,076	–	–	–	–	1,334,076
Management fees -						
Related parties	433,921	–	–	–	–	433,921
Dividends	766,816	–	–	–	–	766,816
Net receivables before allowance for doubtful accounts	₱36,116,454	₱301,837	₱184,247	₱671,699	₱334,891	₱37,609,128

	December 31, 2012					
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
	(In Thousands)					
Trade:						
Real estate buyers:						
Current	₱8,569,352	₱83,106	₱28,886	₱147,315	₱142,907	₱8,971,566
Noncurrent	14,401,513	–	–	–		14,401,513
Related-party tenants	1,512,842	–	–	–	–	1,512,842
Third-party tenants	3,110,175	390	426	–	12,367	3,123,358
Due from related parties	2,465,971	–	–	–	–	2,465,971
Management fees -						
Related parties	154,172	–	–	–	–	154,172
Dividends	292,917	–	–	–	–	292,917
Net receivables before allowance for doubtful accounts	₱30,506,942	₱83,496	₱29,312	₱147,315	₱155,274	₱30,922,339

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

11. Other Current Assets

This account consists of:

	2013	2012
	(In Thousands)	
Land and development (see Note 16)	**₱12,542,783**	₱–
Prepaid taxes and other prepayments	**5,652,642**	5,295,701
Condominium units for sale (see Note 16)	**6,213,523**	2,670,943
Nontrade receivables, net of allowance for impairment loss of ₱5,705	**5,086,936**	4,247,081
Advances and deposits	**5,091,059**	3,374,278
Input tax	**2,987,264**	1,704,159
Receivable from banks and credit cards	**2,423,215**	2,352,836
Accrued interest receivable	**959,763**	1,174,785
Advances for project development (see Note 22)	**88,615**	1,121,565
Others	**1,781,824**	1,516,860
	₱42,827,624	₱23,458,208

- Nontrade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on a 30 to 90 days term.
- Accrued interest receivable relates mostly to time deposits which will be collected at respective maturity dates.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

12. Available-for-Sale Investments

This account consists of investments in:

	2013	2012
	(In Thousands)	
Shares of stock:		
Listed (see Note 20)	**₱11,539,018**	₱11,516,716
Unlisted	**99,468**	102,120
Bonds and corporate notes (see Note 20)	**5,539,822**	7,728,240
Club shares	**11,260**	5,900
	17,189,568	19,352,976
Less allowance for impairment loss	**31,250**	45,132
	17,158,318	19,307,844
Less current portion (see Note 9)	**659,226**	2,395,198
Long-term portion	**₱16,499,092**	₱16,912,646

- Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to ₱3,594.0 million and ₱3,587.0 million as at December 31, 2013 and 2012, respectively, are pledged as collateral for a portion of the Group's long-term loans (see Note 20).
- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.
- Investments in bonds and corporate notes as at December 31, 2013 and 2012 include third party convertible bonds and corporate notes with fixed interest rates ranging from 2.5% to 8.25%. These investments will mature on various dates beginning February 9, 2013 to April 15, 2018.

  The account also includes SM Prime's investment in corporate notes issued by BDO Unibank, Inc. (BDO) in 2013 and 2012 with fixed interest rate of 6.80% which were early redeemed in May 2013 at par (see Note 20). Investments in corporate notes are intended to meet shortterm cash requirements.

Investment in convertible bonds as at December 31, 2012 have embedded derivatives which are further discussed in Note 30.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Thousands)	
Balance at beginning of year	**₱11,718,559**	₱7,008,067
Share in net unrealized gain (loss) on AFS investments of associates (see Note 13)	**(2,687,077)**	1,486,257
Gain (loss) due to changes in fair value of AFS investments	**(1,546,395)**	3,224,165
Transferred to consolidated statement of income	**(146,587)**	70
Balance at end of year	**₱7,338,500**	₱11,718,559

Gain (loss) on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statement of income amounted to ₱159.4 million for the year ended December 31, 2013, (₱0.1) million for the year ended December 31, 2012, ₱30.8 million for the year ended December 31, 2011. The amounts are exclusive of the share of non-controlling interests.

13. Investments in Shares of Stock of Associates and Joint Ventures

The details of and movements in this account are as follows:

	2013	2012
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱92,840,123**	₱66,416,206
Additions	**5,492,653**	28,361,006
Acquisition of controlling interest of HPI and SHDC (see Note 5)	**(1,710,703)**	–
Disposals - net of realized deferred gain	**(21,556)**	(1,937,089)
Balance at end of year	**96,600,517**	92,840,123
Accumulated equity in net earnings:		
Balance at beginning of year	**36,388,668**	26,319,348
Equity in net earnings	**13,602,269**	9,042,034
Dividends received	**(4,499,652)**	(418,470)
Accumulated equity in net earnings of investments – HPI and SHDC	**(338,474)**	–
Accumulated equity in net earnings of investments sold	**(2,208)**	(68,587)
Balance at end of year	**45,150,603**	34,874,325
Share in net unrealized gain (loss) on AFS investments of associates	**(2,756,754)**	1,514,343
Allowance for impairment loss:		
Balance at beginning of year	**775,047**	4,317,705
Recovery	**(775,047)**	(3,542,658)
Balance at end of year	**–**	(775,047)
	₱138,994,366	₱128,453,744

In 2012 and 2011, the Group reversed the allowance for impairment loss in investment in BDO amounting to ₱3,542.7 million and ₱445.0 million, respectively, and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statement of income (see Note 24). The Group made a reassessment of its investments in shares of stock of BDO and concluded that the impairment is no longer necessary in reference to the quoted stock price of BDO in the market.

The major associates and joint venture of the Group, all of which were incorporated in the Philippines, are as follows:

	Percentage of Ownership				
	December 31, 2013		December 31, 2012		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO	**48**	**47**	48	47	Financial services
China Banking Corporation (China Bank)	**23**	**20**	23	21	Financial services
Belle Corp. (Belle)	**32**	**28**	32	18	Real estate development and tourism
Atlas	**29**	**29**	29	29	Mining
Sodexo Motivation Solutions Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**25**	25	25	Retail
HPI	**–**	**–**	35	27	Real estate development and tourism
Summerhills Home Development Corporation (SHDC)	**–**	**–**	49	21	Real estate development and tourism
Joint Ventures					
Waltermart Mall	**51**	**26**	–	–	Shopping mall development

BDO
In March 2012, BDO declared a stock dividend equivalent to 3% of the outstanding capital stock of BDO which increased the number of common and preferred shares held by the Group by 40.5 million and 3.6 million, respectively. The declaration of the stock dividend by BDO increased the ownership interest of the Group by 1% as a result of the preferred shares held by SMIC.

In June 2012, BDO had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every three common shares held as at record date at an offer price of ₱48.6 per rights share. As at June 30, 2012, the Group exercised its rights share and paid ₱22,528.7 million equivalent to 463.5 million BDO shares. Upon completion of the regulatory requirements by BDO, the shares were issued to SMIC on July 4, 2012.

At various dates in 2012, SMIC sold a total number of 1.2 million BDO shares, equivalent to 0.04% of the total outstanding voting shares of BDO at a total cost of ₱39.0 million.

China Bank
In May 2013, China Bank declared a stock dividend to stockholders of record as of July 19, 2013. The BSP and SEC approved the dividend declaration on June 21, 2013.

On August 24, 2012, SEC approved the Amended Articles of Incorporation of China Bank to effect a ten-for-one stock split of the common shares. This resulted in an increase in the number of shares from 200 million to 2,000 million, and a reduction in par value of shares from ₱100.00 to ₱10.00 per share. The stock split by China Bank did not result to a change in the ownership interest of the Group.

Belle
In April 2011, the Group, increased its ownership interest in Belle, an associate, by 20.78% and 12.58% gross and effective ownership, respectively, via share swap wherein the entire outstanding shares of Premium Leisure Amusement, Inc. (a subsidiary) was exchanged for certain number of common shares of Belle valued at ₱1.95 per share (shares swap). The valuation of the PLAI shares was made by an independent appraiser and approved by the SEC on October 6, 2010. This is the same valuation used in recording the share swap transaction in its 2011 financial statements upon receipt of the approval from the Bureau of Internal Revenue on March 31, 2011 and issuance of stock certificates by Belle on April 14, 2011. The transaction resulted in a net gain on share swap amounting to ₱2,604.2 million, net of the eliminated portion of the gain pertaining to the retained interest of the Group in Belle and is recognized under "Gain on disposal of investments and properties - net" account in the consolidated statement of income. The Group will realize the deferred income as the investment in the associate is disposed.

In 2013, SMIC acquired 100% ownership in Sto. Roberto (see Note 5). The acquisition of Sto. Roberto increased the Group's effective interest in Belleshares Holdings, Inc. to 99% which resulted to an increase in the Group's effective ownership in Belle.

On various dates in 2013 and 2012, the Group sold 20.2 million and 1,509.0 million Belle shares, respectively, on which the Group realized ₱10.8 million and ₱811.2 million of the deferred gain in 2013 and 2012, respectively, and was recognized under "Gain on disposal of investments and properties - net" account in the consolidated statement of income. The remaining balance of the deferred gain as at December 31, 2013 and 2012 amounted to ₱1,065.7 million and ₱1,076.4 million, respectively.

Atlas

Finalization of 2011 Provisional Accounting
In July 2011, SMIC acquired 316.2 million common shares of Atlas for US$142.2 million (₱5,996.6 million) representing 17.9% equity interest. In 2011, the Group accounted for the purchase price allocation on provisional basis, pending the information on the fair value of Atlas' net assets. The fair values of the net assets acquired were finalized in June 2012 and goodwill from the acquisition formed part of the cost of investment in shares of stock of Atlas.

SMIC has three representations in the BOD of Atlas as at December 31, 2011 and is participating in operational decisions. Based on these facts and circumstances, management determined that the Group has significant influence over Atlas and therefore accounted for it as an investment in an associate.

Convertible Loan of Atlas
On February 29, 2012, SMIC purchased from BDO the ₱5,492.7 million convertible loan covered by Secured Notes Facility Agreement (the Agreement) between Atlas and BDO dated July 25, 2011. On May 21, 2012, SMIC gave an irrevocable notice to fully exercise the conversion option under the Agreement as the assignee of BDO. On July 13, 2012, upon completion of the necessary regulatory approval, the shares were issued to SMIC resulting in an increase in ownership in Atlas from 17.9% to 28.4%.

Fast Retailing Philippines, Inc.
In January 2012, Marketwatch Investments Co., Inc., a subsidiary of SM Retail, invested ₱100.0 million to acquire 25% ownership of the total outstanding shares of Fast Retailing Philippines, Inc. accounted as an investment in an associate. The entity is organized with Fast Retailing (Singapore) Co. Ltd. to engage in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels and other merchandise, cosmetics, skin care and hair care products and other related products under the brand name "Uniqlo".

HPI
In 2011, the Group disposed 134.8 million shares of HPI for a total cost of ₱288.2 million. The disposal resulted in a gain of ₱1.0 million, which is included under "Gain on disposal of investments and properties - net" account in the consolidated statement of income.

In 2011, the Group recognized allowance for impairment loss in investment in HPI amounting to ₱395.0 million and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statement of income (see Note 24). The allowance recognized by the Group was based on fair value less cost to sell of the investment in reference to the quoted stock price in the market.

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

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

SHDC
In February 2013, SHDC became a subsidiary of SM Land through the latter's acquisition of the 51.0% ownership in SHDC for a total consideration of ₱20.4 million. This was accounted for as a step-up acquisition using the pooling of interest method (Note 5).

In 2011, SMDC obtained 49% and 21% gross and effective ownership, respectively, in SHDC for a total consideration of ₱20.1 million. Consequently, SHDC became an associate of the Group.

Waltermart Mall

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SM Prime and shareholders of Waltermart Mall. Waltermart Mall is involved in shopping mall operations and currently owns nineteen (19) malls across Metro Manila and Luzon. The investments in Waltermart Mall were accounted as investment in joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

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

	2013	2012
	(In Millions)	
Total assets	**₱1,672,778**	₱1,244,408
Total liabilities	**(1,508,424)**	(1,087,156)
Equity	**164,354**	157,252
Proportion of the Group's ownership	**48%**	48%
	78,890	75,481
Goodwill and others	**24,120**	23,258
Carrying amount of the investment	**₱103,010**	₱98,739

	2013	2012	2011
		(In Millions)	
Interest income	**₱56,606**	₱54,014	₱50,467
Interest expense	**(13,440)**	(17,816)	(16,688)
Other expenses – net	**(20,520)**	(21,766)	(23,191)
Net income	**22,646**	14,432	10,588
Share in net income	**10,676**	6,897	4,986
Total other comprehensive income	**(4,766)**	3,303	(168)
Total comprehensive income	**17,880**	17,735	10,676
Share in comprehensive income	**₱8,381**	₱8,360	₱5,033

The following is the aggregate information of associates that are not individually material:

	2013	2012	2011
		(In Millions)	
Share in net income	**₱2,926**	₱2,145	₱1,429
Share in other comprehensive income (loss)	**(327)**	111	131
Share in total comprehensive income	**₱2,599**	₱2,256	₱1,560

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

	2013	2012
	(In Thousands)	
BDO	**₱158,844,179**	₱134,986,770
China Bank	**19,003,197**	15,987,281
Belle	**16,434,274**	16,268,509
Atlas	**8,764,505**	11,272,094

14. Property and Equipment

The movements in this account are as follows:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)					
Cost										
Balance as at December 31, 2011	₱2,974,095	₱4,655,572	₱6,721,043	₱4,132,561	₱3,457,225	₱2,801,446	₱3,756,493	₱580,594	₱965,169	₱30,044,198
Additions	183,851	1,594,292	1,119,843	428,180	767,679	690,525	1,180,589	38,469	611,142	6,614,570
Reclassifications	(744,956)	764,325	(115,484)	141,191	(184,867)	(23,739)	87,977	6,043	(329,884)	(399,394)
Disposals/retirements	–	(2,644,901)	(148,498)	(163,128)	(57,536)	(99,186)	(35,118)	(31,879)	(11,474)	(3,191,720)
Balance as at December 31, 2012	2,412,990	4,369,288	7,576,904	4,538,804	3,982,501	3,369,046	4,989,941	593,227	1,234,953	33,067,654
Additions	–	566,841	1,194,897	325,373	520,580	604,179	1,071,236	66,081	782,608	5,131,795
Effect of business combination (see Note 5)	–	8,066	865,036	74,265	1,410	1,418	–	2,596	263,643	1,216,434
Reclassifications	(2,382,990)	67,187	1,410,778	265,870	139,905	(285,449)	1,678,823	30,713	(776,681)	148,156
Disposals/retirements	(30,000)	(605,516)	(8,598)	(580,863)	(29,769)	(37,616)	(36,577)	(5,923)	(177,169)	(1,512,031)
Balance as at December 31, 2013	**₱–**	**₱4,405,866**	**₱11,039,017**	**₱4,623,449**	**₱4,614,627**	**₱3,651,578**	**₱7,703,423**	**₱686,694**	**₱1,327,354**	**₱38,052,008**
Accumulated Depreciation and Amortization										
Balance as at December 31, 2011	₱–	₱2,508,269	₱4,575,151	₱2,739,647	₱1,595,566	₱1,634,964	₱1,616,711	₱281,536	₱–	₱14,951,844
Depreciation and amortization	–	381,307	825,626	493,886	500,992	387,047	706,389	52,514	–	3,347,761
Reclassifications	–	(127,122)	(236,144)	(3,049)	(42,307)	(53,726)	32,125	(99)	–	(430,322)
Disposals/retirements	–	(1,535,720)	(154,118)	(120,030)	(50,391)	(90,035)	(18,228)	(19,624)	–	(1,988,146)
Balance as at December 31, 2012	–	1,226,734	5,010,515	3,110,454	2,003,860	1,878,250	2,336,997	314,327	–	15,881,137
Depreciation and amortization	–	338,054	616,380	532,018	603,746	962,994	666,619	54,461	–	3,774,272
Effect of business combination (see Note 5)	–	–	725,138	60,658	75	76	–	1,851	–	787,798
Reclassifications	–	323,592	966,206	48,100	48,567	(513,915)	(309,346)	19,067	–	582,271
Disposals/retirements	–	(558,336)	(130,529)	(552,812)	(16,421)	(19,823)	(15,873)	(3,056)	–	(1,296,850)
Balance as at December 31, 2013	**₱–**	**₱1,330,044**	**₱7,187,710**	**₱3,198,418**	**₱2,639,827**	**₱2,307,582**	**₱2,678,397**	**₱386,650**	**₱–**	**₱19,728,628**
Net Book Value										
As at December 31, 2013	**₱–**	**₱3,075,822**	**₱3,851,307**	**₱1,425,031**	**₱1,974,800**	**₱1,343,996**	**₱5,025,026**	**₱300,044**	**₱1,327,354**	**₱18,323,380**
As at December 31, 2012	₱2,412,990	₱3,142,554	₱2,566,389	₱1,428,350	₱1,978,641	₱1,490,796	₱2,652,944	₱278,900	₱1,234,953	₱17,186,517

As at December 31, 2013 and 2012, the Group has no idle property and equipment and the gross carrying amount of fully depreciated property and equipment still in use amounted to ₱8,455.8 million and ₱4,644.3 million, respectively.

15. 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	₱30,570,126	₱94,671,246	₱17,521,166	₱20,668,255	₱163,430,793
Additions	4,766,518	10,150,742	2,907,309	10,107,534	27,932,103
Reclassifications	(186,572)	7,850,434	1,260,406	(13,493,898)	(4,569,630)
Translation adjustment	(159,893)	(611,091)	(71,572)	(220,612)	(1,063,168)
Balance as at December 31, 2012	34,990,179	112,061,331	21,617,309	17,061,279	185,730,098
Additions	4,800,290	5,307,963	1,619,709	14,157,130	25,885,092
Effect of business combination (see Note 5)	–	20,774,116	–	–	20,774,116
Reclassifications	746,887	6,770,851	6,196,877	(4,637,452)	9,077,163
Translation adjustment	347,920	1,706,129	206,315	587,066	2,847,430
Disposals	(747,287)	(11,389,188)	(876,904)	(837,905)	(13,851,284)
Balance as at December 31, 2013	**₱40,137,989**	**₱135,231,202**	**₱28,763,306**	**₱26,330,118**	**₱230,462,615**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2011	₱1,177,437	₱21,530,088	₱9,323,793	₱123,564	₱32,154,882
Depreciation and amortization	72,584	3,229,407	1,408,119	–	4,710,110
Reclassifications	(323,275)	(664,505)	(179)	–	(987,959)
Translation adjustment	(10,232)	(76,254)	(31,139)	–	(117,625)
Balance as at December 31, 2012	916,514	24,018,736	10,700,594	123,564	35,759,408
Depreciation and amortization	155,598	3,788,648	1,795,066	–	5,739,312
Reclassifications	(493,837)	8,730,336	1,059,532	–	9,296,031
Translation adjustment	47,656	783,816	76,446	–	907,918
Disposals	(41)	(12,698,071)	(1,151,131)	–	(13,849,243)
Balance as at December 31, 2013	**₱625,890**	**₱24,623,465**	**₱12,480,507**	**₱123,564**	**₱37,853,426**
Net Book Value					
As at December 31, 2013	**₱39,512,099**	**₱110,607,737**	**₱16,282,799**	**₱26,206,554**	**₱192,609,189**
As at December 31, 2012	₱34,073,665	₱88,042,595	₱10,916,715	₱16,937,715	₱149,970,690

As at December 31, 2013 and 2012, the allowance for impairment loss on land and improvements and land use rights, and construction amounted to ₱923.3 million. There were no reversals of allowance for impairment loss in 2013 and 2012, respectively.

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱494.0 million and ₱447.0 million as at December 31, 2013 and 2012, respectively, and a fair value of ₱13,531.0 million as at August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make Enterprises Limited and Affluent Capital Enterprises Limited (Oriental Land) with Grand China and Oriental Land Development Limited on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱5,001.0 million and ₱4,852.0 million as at December 31, 2013 and 2012, respectively, and estimated fair value of ₱20,109.0 million and ₱10,874.0 million as at December 31, 2013 and 2012, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱27,929.4 million, ₱24,695.6 million and ₱20,832.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱17,075.0 million, ₱13,995.2 million and ₱12,277.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱18,279.0 million and ₱15,245.0 million, and landbanking and commercial building constructions amounting to ₱5,080.0 million and ₱1,430.0 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-Parañaque, 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 ₱2,149.0 million and ₱1,615.0 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 ₱82,058.0 million and ₱53,965.0 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 ₱28,857.0 million and ₱14,393.0 million as at December 31, 2013 and 2012, respectively.

Interest capitalized to the construction of investment properties amounted to ₱77.1 million and ₱130.0 million in 2013 and 2012, respectively. Capitalization rates used ranged 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 the investment properties amounted to ₱555,039.4 million as at February 28, 2013 based on a report by an independent and accredited appraiser. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date.

In conducting the appraisal, the independent appraiser used the income approach. Below are the key inputs used in the valuation:

Discount rate	10.00%
Capitalization rate	7.40%
Average growth rate	5.00%

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

While fair value of the investment properties was not determined as at December 31, 2013, the Group's management believes that there were no conditions present in 2013 that would significantly reduce or increase the fair value of the investment properties from that determined on February 28, 2013.

The Group 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.

16. Land and Development and Condominium Units for Sale

This account consists of the following:

	2013	2012
	(In Thousands)	
Condominium units for sale (see Note 11)	**₱6,213,523**	₱2,670,943
Land and development:		
Current portion (see Note 11)	**12,542,783**	–
Noncurrent portion	**25,666,930**	30,197,862
	₱44,423,236	₱32,868,805

Condominium units for sale
Condominium units for sale pertain to completed projects of SMDC, HPI, Costa and ICDC. These are included under "Other current assets" account in the consolidated balance sheets (see Note 11).

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

	2013	2012
	(In Thousands)	
Balance at beginning of year	**₱2,670,943**	₱1,115,878
Transfer from land and development	**7,332,175**	2,624,448
Additions	**393,905**	89,698
Recognized as costs of real estate sold	**(4,183,500)**	(1,159,081)
Balance at end of year	**₱6,213,523**	₱2,670,943

The condominium units for sale 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.

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

The movements in "Land and development" account are as follows:

	2013	2012
	(In Thousands)	
Balance at the beginning of year	**₱30,197,862**	₱23,012,453
Land acquired during the year	**5,483,396**	4,909,701
Development cost incurred	**15,280,134**	15,384,282
Borrowing cost capitalized	**1,654,579**	1,003,610
Recognized as costs of real estate sold	**(7,727,066)**	(11,204,375)
Transfer to condominium units for sale	**(7,332,175)**	(2,624,448)
Transfer from (to) property and equipment (see Note 14)	**652,983**	(208,897)
Transfer to investment property (see Note 15)	**–**	(74,464)
Balance at end of year	**38,209,713**	30,197,862
Less current portion (see Note 11)	**12,542,783**	–
Noncurrent portion	**₱25,666,930**	₱30,197,862

The average rates used to determine the amount of borrowing costs eligible for capitalization ranged from 3.6% to 5.1% in 2013 and 3.3% to 8.3% in 2012.

SMDC
Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱32,645.0 million and ₱29,012.9 million as at December 31, 2013 and 2012, respectively.

SMDC acquired LLCI, GLC and MSDPC for ₱600.0 million, ₱1,500.0 million and ₱498.0 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. The total estimated liability on completed projects amounts to ₱400.1 million and ₱364.2 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 ₱1,364.6 million at December 31, 2013. As at December 31, 2013, the land and development account includes land held for future development amounting to ₱1,519.1 million which was the payment received by HPI from Belle Corporation (Belle) for its subscription to HPI's capital stock before the tender offer by SM Land and parcels of land subsequently acquired by HPI from Belle after its subscription.

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.

17. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2013	2012
	(In Thousands)	
Goodwill	**₱14,221,912**	₱9,321,057
Less accumulated impairment loss	**91,619**	91,619
Net book value	**14,130,293**	9,229,438
Trademarks and brand names	**6,124,762**	6,124,762
	₱20,255,055	₱15,354,200

Goodwill is allocated to SM Prime, Supervalue, Inc. (SVI), Super Shopping Market, Inc. (SSMI), Prime Metroestate, Inc. and others as separate cash generating units.

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

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

Value-in-use. The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 12.30% to 12.34% and 6.61% to 9.14% as at December 31, 2013 and 2012, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. The increase in discount rates in 2013 was due to change in the comparable companies used in the value-in-use computation.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2013 and 2012 to materially exceed its recoverable amount.

Fair value less cost of disposal. The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2013 and 2012 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2013	2012
	(In Thousands)	
Receivables from real estate buyers (see Note 10)	**₱10,636,503**	₱14,401,513
Deposits and advance rentals	**6,362,347**	8,149,028
Advances for project development (see Note 22)	**3,607,169**	1,962,578
Derivative assets (see Notes 29 and 30)	**2,643,487**	109,979
Deferred input VAT	**1,554,256**	962,629
Defined benefit asset (see Note 26)	**615,982**	452,910
Escrow fund (see Note 22)	**556,206**	98,996
Long-term notes (see Note 22)	**218,124**	306,724
Others	**2,259,381**	1,322,879
	₱28,453,455	₱27,767,236

- Deposits and advance rentals substantially pertain to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to future rentals. Consequently, the said deposits and advance rentals are not remeasured at amortized cost.
- Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.5% as at December 31, 2013 and 2012. The 200.0 million will mature on November 21, 2017, ₱88.6 million will mature on May 29, 2018 and the remaining ₱218.1 million will mature on March 20, 2019. In May 2013 and November 2012, the Group received full payment from BDO for the early redemption of the long-term note amounting to ₱88.6 million and ₱200.0 million, respectively.
- Escrow fund amounting to ₱426.2 million and ₱99.0 million as at December 31, 2013 and 2012, respectively, pertains mainly 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 SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration. In 2013, the Parent Company deposited cash in escrow amounting to ₱130.0 million in the account of an escrow agent as required by the SEC in connection with the corporate restructuring.

18. Bank Loans

This account consists of:

	2013	2012
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱2,219,750**	₱2,052,500
Peso-denominated loans	**6,550,000**	11,783,400
Subsidiaries -		
Peso-denominated loans	**18,818,509**	17,958,075
	₱27,588,259	₱31,793,975

The U.S. dollar-denominated loans amounting to US$50.0 million with peso equivalent of ₱2,219.8 million and ₱2,052.5 million as at December 31, 2013 and 2012, respectively, bear interest at three-month London Inter-Bank Offered Rate (LIBOR) plus margin (see Note 29).

The peso-denominated loans bear annual interest rates ranging from 1.06% to 6.75% and 3.25% to 5.00% in 2013 and 2012, respectively.

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

Interest expense on bank loans amounted to ₱3,960.4 million, ₱3,253.7 million and ₱2,288.8 million in 2013, 2012 and 2011, respectively (see Note 25).

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2013	2012
	(In Thousands)	
Trade	**₱39,580,013**	₱34,304,241
Nontrade	**8,013,509**	2,276,078
Payable arising from acquisition of land	**4,838,686**	6,100,508
Accrued expenses	**3,967,472**	1,881,254
Payable to government agencies	**3,671,601**	2,334,796
Due to related parties (see Note 22)	**2,091,305**	3,265,015
Accrued interest	**1,784,520**	2,537,777
Derivative liabilities (see Notes 29 and 30)	**845,429**	2,493,651
Gift checks redeemable and others	**3,295,792**	2,672,556
	₱68,088,327	₱57,865,876

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on a 30 to 60 days term.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Payable arising from acquisition of land is expected to be settled within the following year.
- The terms and conditions relating to due to related parties are discussed in Note 21.
- Gift checks are redeemable at face value.
- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.

20. Long-term Debt

This account consists of:

	2013			2012		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
			(In Thousands)			
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds	**₱56,053,998**	**₱(365,270)**	**₱55,688,728**	₱61,813,938	(₱449,782)	₱61,364,156
Convertible bonds	**3,732,919**	**(60,787)**	**3,672,132**	9,407,559	(183,247)	9,224,312
Five-year term loans	**13,318,500**	**(16,893)**	**13,301,607**	–	–	–
Peso-denominated:						
Seven-year and ten-year fixed rate corporate notes	–	–	–	4,995,000	(37,757)	4,957,243
Five-year fixed rate corporate notes	–	–	–	6,699,043	(36,984)	6,662,059
Five-year and seven-year retail bonds	**9,400,000**	**(13,794)**	**9,386,206**	9,400,000	(32,107)	9,367,893
Seven-year and ten-year retail bonds	**13,082,270**	**(89,961)**	**12,992,309**	14,282,270	(118,549)	14,163,721
Bank loans collateralized with time deposits	**3,000,000**	**(3,457)**	**2,996,543**	3,000,000	(6,635)	2,993,365
Other bank loans	**9,350,000**	**(294,476)**	**9,055,524**	8,050,000	(10,945)	8,039,055
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	**11,986,650**	**(141,857)**	**11,844,793**	11,083,500	(186,538)	10,896,962
Two-year, three-year and five-year bilateral loans	**1,109,875**	**(5,994)**	**1,103,881**	1,026,250	(5,008)	1,021,242
Five-year syndicated loan	**22,197,500**	**(473,025)**	**21,724,475**			
Other U.S. dollar loans	**4,439,500**	**(55,869)**	**4,383,631**	2,463,000	(24,888)	2,438,112
China yuan-renminbi denominated:						
Three-year loan	**961,827**	–	**961,827**	1,111,112	–	1,111,112
Five-year loan	**2,235,771**	–	**2,235,771**	2,272,374	–	2,272,374
Peso-denominated:						
Three-year and five-year fixed rate notes	**17,075,000**	**(80,100)**	**16,994,900**	18,313,000	(84,747)	18,228,253
Five-year and ten-year fixed and floating rate notes	**7,375,500**	**(47,692)**	**7,327,808**	7,500,000	(57,081)	7,442,919
Five-year, seven-year and ten-year fixed and floating rate notes	**4,316,400**	**(25,877)**	**4,290,523**	5,000,000	(33,540)	4,966,460
Five-year, seven-year and ten-year corporate notes	**6,596,000**	**(25,068)**	**6,570,932**	6,860,000	(36,161)	6,823,839
Five-year and ten-year corporate notes	**1,100,000**	**(6,906)**	**1,093,094**	1,100,000	(7,849)	1,092,151
Five-year floating rate notes	**4,900,000**	**(20,390)**	**4,879,610**	4,950,000	(29,172)	4,920,828
Five-year, seven-year and ten-year fixed rate notes	**8,200,000**	**(51,445)**	**8,148,555**	800,000	(4,658)	795,342
Five-year bilateral loans	**500,000**	**(1,547)**	**498,453**	500,000	(2,009)	497,991
Other bank loans	**11,026,060**	**(21,325)**	**11,004,735**	9,133,550	(20,510)	9,113,040
	211,957,770	**(1,801,733)**	**210,156,037**	189,760,596	(1,368,167)	188,392,429
Less current portion	**34,858,218**	**(291,599)**	**34,566,619**	13,889,278	(29,720)	13,859,558
Noncurrent portion	**₱177,099,552**	**(₱1,510,134)**	**₱175,589,418**	₱175,871,318	(₱1,338,447)	₱174,532,871

Parent Company

Fixed Rate Bonds

US$500.0 million Senior Bonds
On October 17, 2012, SMIC issued US$500.0 million senior bonds, with peso equivalent of ₱22,197.5 million and ₱20,525.0 million as at December 31, 2013 and 2012, which bear a fixed interest rate of 4.25% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019.

US$400.0 million Exchanged Bonds
On October 13, 2010, SMIC issued US$400.0 million bonds with peso equivalents of ₱17,023.9 million and ₱15,641.8 million as at December 31, 2013 and 2012, respectively, which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱7,356.2 million) additional bonds, and US$82.9 million (₱3,199.4 million) and US$130.8 million (₱5,086.2 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.0% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

US$500.0 million Bonds
On September 22, 2009, SMIC issued US$500.0 million bonds, with peso equivalent of ₱16,832.6 million and ₱15,564.4 million as at December 31, 2013 and 2012, which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

US$350.0 million Bonds
On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalent of nil and ₱10,082.8 million as at December 31, 2013 and 2012, respectively, which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds matured on July 20, 2013.

Convertible Bonds

US$250.0 million Convertible Bonds
On February 15, 2012, SMIC issued at face value 1.625% coupon US$250.0 million (₱9,407.6 million) convertible bonds, with a yield to maturity of 2.875% due on February 15, 2017 at 106.67%. The bonds bear coupon interest of 1.625% and has a yield-to-maturity of 2.875% at inception. Interest on the bonds is payable semi-annually in arrears. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which was bifurcatedby SMIC at inception. See Note 29 for further discussion.

Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for SMIC's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises its conversion option, the Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2013, the bondholders of US$150.8 million (₱5,778.9 million) opted to convert their holdings into 8,390,334 of SMIC's shares. No conversion options were exercised as at December 31, 2012.

The put option entitles the bondholders to require the Parent Company to redeem all or some of its bonds on February 15, 2015 (put date) at 103.89%.

Lastly, the call option gives right to the Parent Company to redeem the Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US Dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

US$300.0 million Convertible Bonds
On March 19, 2007, SMIC issued at face value zero coupon US$300.0 million convertible bonds with a yield to maturity of 3.5% due on March 20, 2012 at 118%. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which were bifurcated by SMIC at inception. See Note 29 for further discussion.

Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds (conversion option) for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2012, the bondholders of US$16.0 million (₱813.6 million) and US$1.7 million (₱82.2 million) bonds, respectively, opted to convert their holdings into 1,710,587 and 181,364 of SMIC's shares (see Note 20). The fair value of the related derivative liability derecognized upon conversion amounted to US$4.2 million (₱181.50 million) in 2012 (see Notes 29 and 30).

The remaining value of convertible bond amounting to US$4.7 million (₱201.4 million) matured on March 20, 2012, resulted to a gain of ₱28.8 million, shown under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon maturity amounted to US$3.9 million (₱28.8 million) (see Note 29).

The put option entitles the bondholders to require the Parent Company to redeem all or some of its bonds on March 19, 2010 (put date) at 110.97%. A total of US$246.3 million (₱11,253.5 million) bonds were redeemed as a result of the exercise of the holders of the put option, which resulted in a gain of ₱844.6 million shown under "Gain (loss) on fair value changes on derivatives - net" account in the 2010 consolidated statements of income. The fair value of the related derivative liability derecognized upon early redemption amounted to US$35.2 million (₱1,609.7 million) (see Note 30).

Lastly, the call option gives right to the Parent Company to redeem the remaining Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US Dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

Five-year U.S. Dollar Loans
In 2013, the Company obtained a five-year loan amounting to US$300.0 million with Phillippine peso equivalent of ₱13,318.5 million as at December 31, 2013 which bears floating interest rate of six-month LIBOR plus margin. Portion of the loan amounting to US$180.0 million is hedged against interest rate and foreign exchange risks using cross currency swap contract (see Notes 29 and 30).

Seven-year and Ten-year Fixed Rate Corporate Notes
On September 26, 2011, SMIC issued fixed rate corporate notes comprised of seven-year or Series A Notes and ten-year or Series B Notes due on September 26, 2018 and September 26, 2021, respectively. The total issuance amounted to ₱916.0 million and ₱4,084.0 million for the Series A and Series B Notes, respectively.

The Series A Notes have a term of seven years from the issue date, with a fixed interest rate equivalent to 5.75% per annum payable semi-annually in arrears starting March 26, 2012. The Series B Notes have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.625% per annum payable semi-annually in arrears starting March 26, 2012.

The Series A and B Notes have principal repayment of 0.1% of the principal amount in annual installments that will commence on the twelfth (12^{th}) month from the issue date, with the last installment payment to be made on maturity date.

The Series A and B Notes were pre-terminated on April 16, 2013. Outstanding balance as at December 31, 2012 for the Series A and B Notes amounted to ₱915.1 million and ₱4,079.9 million, respectively.

Five-year Fixed Rate Corporate Notes
On February 7, 2011, SMIC issued corporate notes amounting to ₱6,700.0 million, which bear a fixed interest rate of 6.17% per annum, payable semi-annually in arrears. The corporate notes will mature on February 8, 2016. The notes have principal repayment of ₱1.0 million that will commence on the 12th month from the issue date, with the last installment payment to be made on maturity date. Outstanding balance as at December 31, 2012 amounting to ₱6,699.0 million was pre-terminated on March 27, 2013.

Seven-year and Ten-year Retail Bonds
On July 16, 2012, SMIC issued fixed rate bonds, which comprised of seven-year or Series C Bonds and ten-year or Series D Bonds due on July 16, 2019 and July 16, 2022, respectively. The total issuance amounted to ₱5,623.5 million and ₱8,658.8 million for the Series C and Series D Bonds, respectively.

The Series C Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 6.00% per annum payable semi-annually in arrears starting January 16, 2013. The Series D Bonds have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.94% per annum payable semi-annually in arrears starting January 16, 2013.

At various dates in 2013, the SMIC redeemed ₱1,317.7 million for Series C and ₱600.0 million for Series D Bonds.

Outstanding balance as at December 31, 2013 for Series C and Series D bonds amounted to ₱5,023.5 million and ₱8,058.8 million, respectively.

Five-year and Seven-year Retail Bonds
On June 25, 2009, SMIC issued fixed rate bonds, which comprised of five-year or Series A Bonds and seven-year or Series B Bonds due on June 26, 2014 and June 25, 2016, respectively. The total issuance amounted to ₱8,400.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

The Series A Bonds have a term of five years and one day from the issue date, with a fixed interest rate equivalent to 8.25% per annum payable semi-annually in arrears starting December 26, 2009. The Series B Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 9.10% per annum payable semi-annually in arrears starting December 25, 2009.

Outstanding balance as at December 31, 2013 and 2012 amounted to ₱9,400.0 million.

Bank Loans Collateralized with Time Deposits
On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The loans are based on a three-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus an agreed margin. Interest on these loans is payable quarterly in arrears.

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest based on a three-month PDST-F rate plus an agreed margin, payable quarterly in arrears. On October 12, 2011, SMIC paid 50.0 million of this loan. The remaining value amounting to ₱5,950.0 million matured on October 16, 2012.

These loans are collateralized by a portion of SMIC's time deposits amounting to US$475.0 million with peso equivalents of ₱21,087.6 million and ₱19,498.8 million as at December 31, 2013 and 2012, respectively (see Note 8).

Other Peso Bank Loans
This account includes the following:

	2013	2012
	(In Thousands)	
Ten-year term loans	**₱100,000**	₱2,050,000
Seven-year term loans	**9,250,000**	3,000,000
Five-year term loans	–	3,000,000
	₱9,350,000	₱8,050,000

- In August 2013, SMIC obtained a seven-year term loan amounting to ₱2,000.0 million which bears a fixed interest rate of 4.47% per annum.
- In June 2013, the Company obtained a seven-year term loan amounting to ₱3,000.0 million which bears a fixed interest rate of 4.39% per annum.
- In April 2013, SMIC obtained two seven-year term loans and a ten-year term loan amounting to ₱2,250.0 million and ₱100.0 million, which bear fixed interest rates of 4.39% and 4.64% per annum, respectively.
- In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear fixed interest rates of 6.85% and 6.71% per annum, respectively. On various dates in 2013, SMIC prepaid the ₱1,050.0 million and ₱500.0 million fixed rate loans. Outstanding balances of these loans amounted to nil and ₱1,550.0 million as at December 31, 2013 and 2012, respectively.
- In April 2008, SMIC obtained seven-year and ten-year term loans amounting to ₱500.0 million each, which bear fixed interest rates of 8.56% and 8.79% per annum, respectively. The seven-year term loan has annual principal repayment of ₱0.5 million that will commence on the 12th month from the issue date, with the last installment payment to be made on maturity date. On April 25, 2012, SMIC paid the total outstanding balance of the seven-year term loan amounting to ₱498.5 million. Outstanding balance of ten-year term loans amounted to ₱500.0 million as at December 31, 2013, was prepaid by SMIC on April 25, 2013.
- In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest rate of 7.28% per annum. Outstanding balance as at December 31, 2012 amouting to ₱1,000.0 million was prepaid by SMIC on March 6, 2013.
- The seven-year term loans also include ₱2,000.0 million and ₱1,000.0 million fixed rate loans with interest rates of 6.90% and 6.91%, respectively. It likewise includes ₱2,000.0 million floating rate loan with interest based on three-month PDST-F plus an agreed margin. The loans will mature in October and November 2014. On January 31, 2011 and November 23, 2012, SMIC prepaid the ₱2,000.0 million and ₱1,000.0 million fixed rate loans, respectively. Outstanding balance as at December 31, 2013 and 2012 amounted to ₱2,000.0 million..
- In February 2009, SMIC obtained a five-year term loan amounting to ₱3,000.0 million which bears a floating interest rate based on a six-month PDST-F plus margin. Outstanding balance as at December 31, 2012 amounted to ₱3,000.0 million.

Subsidiaries

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270.0 million unsecured loan obtained on various dates in 2012 and 2011 from a US$270.0 million facility. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 21, 2016 (see Notes 29 and 30).

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This consists of the following:

- US$300.0 million unsecured loan obtained on various dates in 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on March 25, 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 29 and 30).
- US$200.0 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 29 and 30).

U.S. Dollar-denominated Two-Year, Three-Year and Five-Year Bilateral Loans
This consists of the following:

- US$40.0 million and US$10.0 million, out of US$50 million five-year bilateral unsecured loan, were obtained in 2013 and 2012, respectively. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017 (see Note 30).
- US$30.0 million and US$20.0 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 30 and 31).

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

- US$75.0 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$20.0 million and the US$30.0 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 29 and 30). The remaining balance of US$25.0 million matured on November 20, 2013.
- US$25.0 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 Notes 29 and 30).

China Yuan Renminbi-denominated Five-Year Loan
This consists of the following:

- A five-year loan obtained on August 26, 2009 amounting to ¥350.0 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 29).
- A five-year loan obtained on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown totaling ¥61.0 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 29).

China Yuan Renminbi-denominated Three-Year Loan
This represents a three-year loan obtained on March 28, 2011 amounting to ¥187.0 million out of ¥250.0 million loan facility to finance the construction of shopping malls. The Company prepaid portion of this loan amounting to ¥37.0 million in 2013 and ¥18.0 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 29).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 15).

Philippine Peso-denominated Three-Year and Five-Year Fixed Rate Notes
This consists of the following:

- On December 27, 2012, SMDC obtained long-term loan amounting to ₱2,000.0 million from a local bank with an interest rate of 4.72%, payable quarterly and will mature on December 23, 2015.
- Peso-denominated fixed rate corporate notes amounting to ₱6,313.0 million, issued by SMDC on April 27, 2012. Of the total principal, ₱6.0 million shall be paid annually starting on April 27, 2013 up to April 27, 2017 and the remaining shall be paid on July 27, 2017. The notes have fixed interest rate of 6.0% payable semi-annually. The notes were pre-terminated in June 2013 (see Note 29).
- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱2,000.0 million and ₱8,000.0 million, respectively, issued by SMDC on June 1, 2010. The Series "A" and Series "B" notes have fixed interest rates of 6.8% and 7.7%, which are payable semi-annually, and with maturity dates of June 1, 2013 and June 2, 2015, respectively. The notes were pre-terminated in June 2013 (see Note 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 ₱3,450.0 million and ₱1,000.0 million for the floating and ₱680.0 million and ₱2,370.0 million for the fixed, respectively. The loans bear an interest rate based on 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 ₱50.0 million on March 19, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱0.4 million in 2013 (see Note 29).

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 ₱200.0 million, ₱1,012.0 million, ₱133.0 million, and ₱3,655.0 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 ₱634.0 million on April 12, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱5.0 million in 2013 (see Note 29).

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 ₱3,000.0 million, ₱1,134.0 million, ₱52.0 million and ₱814.0 million, respectively, out of ₱7,000.0 million facility obtained on December 20, 2010. The remaining ₱2,000.0 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDSTF 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 ₱196.0 million on March 20, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱2.0 million in 2013 (see Note 29).

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 ₱200.0 million, ₱3,700.0 million and ₱1,100.0 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 ₱200.0 million and ₱3,700.0 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 ₱17.0 million in 2012 (see Note 30).

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 ₱4,000.0 million and ₱1,000.0 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 29).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This consists of the following:

- On June 17, 2008, SM Prime obtained five-year, seven-year and ten-year fixed rate notes amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 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 ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million were prepaid on June 17, 2011, 2012 and 2013, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4.0 million in 2011, ₱5.0 million in 2012 and ₱4.0 million in 2013 (see Notes 29 and 30).

- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱3,740.0 million and ₱2,460.0 million, respectively, issued by SMDC on June 3, 2013. The Series "A" and Series "B" notes have fixed interest rates of 5.6% and 5.9%, which are payable semi-annually, and with maturity dates of June 2020 and June 2023, respectively (see Note 29).

- On June 28, 2013, SMDC issued peso-denominated fixed rate corporate notes amounting to ₱2,000.0 million to a local bank. Of the total principal, ₱2.0 million shall be paid annually starting June 30, 2014 up to June 30, 2019 and the remaining will be paid on June 28, 2020. The loan bears fixed interest rate at 5.7%, payable semi-annually (see Note 29).

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 ₱250.0 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱16.0 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 29).

- Five-year term loan obtained on October 24, 2011 amounting to ₱500.0 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 29).

Other Bank Loans - Subsidiaries
This account includes the following:

	2013	2012
	(In Thousands)	
Three-year term loan	**₱315,000**	₱–
Five-year term loans	**7,511,060**	7,933,550
Ten-year term loan	**3,200,000**	1,200,000
	₱11,026,060	₱9,133,550

- On October 14, 2013, SHDC obtained a three-year bullet fixed rate loan amounting to ₱315.0 million which bears a fixed interest rate of 4.50% and will mature on October 4, 2016 (see Note 29).

- The following five-year term loans were obtained by various subsidiaries:

Year Obtained	Maturity	Subsidiary	**2013**	2012	Interest Rate (see Note 30)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱2,000.0	PDST-F plus an agreed margin
		SM Prime	**793.4**	980.0	Agreed fixed rate less PDST-F
		SM Land	**220.5**	222.8	Fixed rate of 6.75%
		Costa	**117.6**	118.8	Fixed rate of 7.0%
		SM Land	**–**	75.0	PDST-F plus an agreed margin
2009	2014	SM Prime	**3,000.0**	3,000.0	PDST-F plus an agreed margin
		SM Land	**1,379.5**	1,387.0	Fixed rate of 5.69–6.75%
		SM Land	**–**	150.0	PDST-F plus an agreed margin
			₱7,511.0	₱7,933.6	

- On June 3, 2013 and June 25, 2013, SMDC obtained two ten-year loans amounting to ₱1,000.0 million each which bears fixed interest rate of 5.88% and will mature on June 3, 2020 and June 25, 2023.

- On August 16, 2006, SM Prime obtained a ten-year bullet fixed rate loan amounting to ₱1,200.0 million which bears a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 29).

The repricing frequencies of floating rate loans range from three to six months.

A portion of these loans is collateralized by temporary investment and shares of stocks. The carrying values of the collaterals approximate the amounts of the loans (see Note 11).

Debt Issue Cost
The movements in unamortized debt issue cost in 2013 and 2012 are as follows:

	2013	2012
	(In Thousands)	
Balance at beginning of year	**₱1,368,167**	₱1,048,431
Additions	**966,967**	652,989
Amortization (see Note 24)	**(452,594)**	(296,977)
Prepayments	**(80,807)**	(36,276)
Balance at end of year	**₱1,801,733**	₱1,368,167

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2014	₱34,858,218	(₱291,599)	₱34,566,619
2015	16,485,220	(243,769)	16,241,451
2016	25,002,750	(188,923)	24,813,827
2017	28,371,637	(310,047)	28,061,590
2018	46,201,775	(359,109)	45,842,666
2019	28,499,160	(248,313)	28,250,847
2020	13,779,060	(65,790)	13,713,270
2021	66,800	(6,218)	60,582
2022	14,137,610	(60,972)	14,076,638
2023	4,555,540	(26,993)	4,528,547
	₱211,957,770	(₱1,801,733)	₱210,156,037

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2013 and 2012, the Group is in compliance with the terms of its loan covenants.

21. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2013	2012
Authorized - 10 par value per share	**1,190,000,000**	690,000,000
Issued:		
Balance at beginning of the year	**622,974,620**	612,164,033
Issuances	**173,297,648**	10,810,587
Balance at end of year	**796,272,268**	622,974,620
Subscribed:		
Balance at beginning of the year	**622,974,620**	612,164,033
Issuances	**173,297,648**	10,810,587
Balance at end of year	**796,272,268**	622,974,620
Issued and subscribed	**796,272,268**	622,974,620

On June 14, 2013, the SEC approved the increase in authorized capital stock of SMIC from ₱6,900.0 million to ₱11,900.0 million.

On August 7, 2013, the SMIC entered into a Placement Agreement with certain shareholders and UBS AG, Hong Kong Branch (the "Placement Agent"), where the selling shareholders shall sell 7.3 million common shares (the "Sale Shares") at ₱900.00 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

On August 24, 2012, SMIC entered into a Placement Agreement with certain shareholders and Macquarie Capital PTE. Limited (the "Placement Agent"), where the selling shareholders shall sell 9.1 million SMIC common shares (the "Sale Shares") at ₱700.00 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

In 2013 and 2012, the SMIC simultaneously entered into a Subscription Agreement with the selling shareholders, where the Company agreed to issue new common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by the Selling Shareholders and the Selling Shareholders agreed to subscribe to the said shares.

The placement and subscription agreements increased "Capital Stock" and "Additional paid-in capital" in the amount of ₱72.5 million and ₱6,370.6 million in 2013 and ₱91.0 million and ₱6,238.7 million in 2012, respectively.

In 2013 and 2012, 8,390,334 common shares and 1,710,587 common shares, respectively, were issued as a result of conversion of SMIC's convertible bonds (see Note 20). The excess of the conversion price over par value totaling ₱8,449.7 million and ₱977.8 million in 2013 and 2012, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31, 2013 and 2012, the Parent Company is compliant with the minimum public float as required by the PSE.

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

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010		340,858	453
November 3, 2010		309,387	453
November 25, 2010		309,386	453
August 17, 2011		10,668	453
September 26, 2011		170,696	453
January 2, 2012		21,337	453
January 10, 2012		16,002	453
January 11, 2012		298,718	453
January 26, 2012		90,682	453
February 3, 2012		679,584	453
February 8, 2012		279,515	453
March 8, 2012		250,070	453
March 12, 2012		10,668	453
March 13, 2012		64,011	453
September 24, 2012		9,100,000	700
January 23, 2013		10,931	781
January 24, 2013		32,793	781
February 20, 2013		688,668	781
February 25, 2013		87,450	781
February 28, 2013		109,312	781
March 4, 2013		76,518	781
March 6, 2013		54,656	781
March 8, 2013		109,312	781
March 12, 2013		349,797	781
March 14, 2013		459,113	781
March 15, 2013		109,312	781
March 18, 2013		163,968	781
March 19, 2013		218,625	781
March 20, 2013		153,037	781
March 22, 2013		120,243	781
March 25, 2013		207,693	781
April 2, 2013		546,563	781
April 3, 2013		174,900	781
April 5, 2013		163,969	781
April 10, 2013		109,312	781
April 11, 2013		109,312	781
April 12, 2013		109,312	781
April 15, 2013		54,656	781
April 16, 2013		109,312	781
April 17, 2013		109,312	781
April 18, 2013		229,556	781
April 19, 2013		32,793	781
April 22,2013		109,312	781
April 23, 2013		185,830	781
April 24, 2013		87,449	781
April 26, 2013		54,656	781
May 6, 2013		120,243	781
May 7, 2013		382,594	781
May 8, 2013		65,587	781
May 9, 2013		21,862	781
May 10, 2013		207,693	781
May 13, 2013		54,656	781
May 16, 2013		109,312	781
May 17, 2013		546,562	781
May 20, 2013		54,656	781
May 24, 2013		163,968	781
May 28, 2013		185,831	781
May 29, 2013		207,693	781
June 4, 2013		163,968	781
June 5, 2013		54,656	781
June 6, 2013		32,793	781

(Forward)

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
June 7, 2013		21,862	₱781
June 14, 2013	500,000,000		10
June 24, 2013		10,931	781
July 5, 2013		109,312	781
July 18, 2013		82,053	625
July 19, 2013		164,108	625
July 26, 2013		82,054	625
July 29, 2013		41,027	625
July 30, 2013		136,757	625
August 1, 2013		157,629,986	10
August 1, 2013		7,250,000	900
October 17, 2013		27,328	10
October 17, 2013		68,378	625
October 25, 2013		136,755	625
November 1, 2013		27,351	625

The Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company was 1,249 and 1,263 as at December 31, 2013 and 2012, respectively.

b. Redeemable preferred shares

	Number of shares	
	2013	2012
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2013 and 2012.

Cost of Parent Common Shares Held by Subsidiaries

Certain subsidiaries hold common shares of the Parent Company. This is presented as "Cost of Parent common shares held by subsidiaries" and is treated as a reduction in equity as shown in the consolidated balance sheets and consolidated statements of changes in equity.

The cost of common shares held by subsidiaries as at December 31, 2013 amounting to ₱25.4 million pertains to 879 shares with an average cost of ₱257.7 per share. The cost of common shares held by subsidiaries as at December 31, 2012 amounting to ₱125.9 million pertains to 390,491 shares with an average cost of ₱322.4 per share.

In 2013, SM Land disposed 389,612 Parent Company common shares for ₱371.0 million. The disposal resulted in a total gain of ₱267.7 million where the portion of the gain pertaining to the interest of the Parent Company and Non-controlling interest is recognized under "Additional paid-in capital" and "Non-controlling interests" account, respectively, in the consolidated balance sheets.

In 2012, SM Land and MRDC disposed a total of 430,000 Parent Company common shares for ₱323.9 million. The disposal resulted in a total gain of ₱184.5 million where the portion of the gain pertaining to the interest of the Parent Company and Non-controlling interest is recognized under "Additional paid-in capital" and "Non-controlling interests" account, respectively, in the consolidated balance sheets.

Equity Adjustments from Common Control Transactions

Equity adjustments from business combination under common control mainly pertains to the acquisitions of the various SM China Companies by SM Prime in 2007 and various service companies by SM Retail in 2009. These acquisitions were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to pooling of interest method.

In 2013, the Group entered into a corporate restructuring to consolidate all of the SM Group's real estate subsidiaries and real estate assets under one single listed entity. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions. The adjustment resulting from these transactions was also recorded in this account (see Note 5).

Retained Earnings

a. Appropriated

On December 14, 2012, the BOD approved the appropriation of ₱35,000.0 million retained earnings.

On April 25, 2013, the BOD approved to reverse ₱8,000.0 million of the appropriation. As at December 31, 2013, the appropriated retained earnings is intended for the following projects:

Projects	Timeline	2013
		(In Thousands)
Hotel projects	2013–2015	₱8,000,000
Commercial buildings	2012–2016	10,000,000
Acquisition of investments	2012–2018	9,000,000
		₱27,000,000

c. Unappropriated

On April 25, 2013, the BOD approved the declaration of cash dividends of 118.0% of the par value or ₱11.80 per share for a total amount of ₱7,402.0 million in favor of stockholders on record as at May 24, 2013. This was paid on June 20, 2013. On the same date, the BOD approved the declaration of 25% stock dividends in favor of stockholders on record to be fixed by the SEC.

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

On April 26, 2012, the BOD approved the declaration of cash dividends of 104.0% of the par value or ₱10.40 per share for a total amount of ₱6,383.6 million in favor of stockholders on record as at May 22, 2012. This was paid on June 21, 2012.

On April 27, 2011, the BOD approved the declaration of cash dividends of 90.4% of the par value or ₱9.04 per share for a total amount of ₱5,532.3 million in favor of stockholders on record as at May 27, 2011. This was paid on June 22, 2011.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱108,146.6 million and ₱93,346.9 million as at December 31, 2013 and 2012, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The following are the significant transactions with related parties:

a. Rent

The Group have existing lease agreements for office and commercial spaces with related companies (retail entities under common stockholder, banking group and other related parties under common stockholder).

b. Management and Service Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. (related parties under common stockholder) for the management of the office and mall premises. The Group also provides manpower and other services to related parties under common stockholder.

SMIC and SM Retail also receive management and service fees from retail entities under common stockholder for management, consultancy, manpower and other services.

c. Dividend Income

The Group has investment in certain related parties under common stockholder classified as AFS equity instruments. The Group earn income from these investments upon the declaration of dividends by the investees.

d. Cash Placements and Loans

The Group 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 and 17).

The Group 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).

e. Others

The Group, 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.

Following is the summary of related party transactions and outstanding balances as at and for the years ended December 31, 2013, 2012 and 2011.

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Condition
		(In Thousands)			
Bank Associates					
Cash placement and investment in debt securities	**2013**	**(₱14,392,658)**	**₱99,621,590**	Interest bearing 0.5% to 6.55%	Unsecured; no impairment
	2012	54,171,200	114,014,248		
	2011	(41,171,620)	59,843,048		
Interest income	**2013**	**589,122**	**798,688**	Interest bearing 4.9% to 6.47%	Unsecured; no impairment
	2012	3,950,656	1,011,987		
	2011	3,125,270	841,418		
Loans	**2013**	**(8,731,644)**	**23,290,000**	Interest-bearing 3.25% to 8.79%	Unsecured
	2012	(5,175,006)	32,021,644		
	2011	10,084,368	37,196,650		

(Forward)

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Condition
		(In Thousands)			
Interest expense	**2013**	**₱634,507**	**₱41,054**	Interest-bearing 3.25% to 8.79%	Unsecured
	2012	859,134	286,719		
	2011	738,231	190,583		
Rent income	**2013**	**64,951**	**3,060**	Noninterest bearing	Unsecured; no impairment
	2012	52,860	2,547		
	2011	40,408	351		
Retail Entities under Common Stockholders					
Rent income	**2013**	**4,469,727**	**2,611,290**	Noninterest bearing	Unsecured; no impairment
	2012	4,002,084	1,516,066		
	2011	2,945,053	1,267,728		
Management fee income	**2013**	**309,310**	**54,533**	Noninterest bearing	Unsecured; no impairment
	2012	713,226	154,172		
	2011	564,160	95,892		
Management fee expense	**2013**	**976,415**	**109,177**	Noninterest bearing	Unsecured
	2012	872,853	2,020		
	2011	779,814	104,963		
Dividend income	**2013**	**716,384**	**719,861**	Noninterest bearing	Unsecured; no impairment
	2012	552,768	292,917		
	2011	222,089	42,015		
Service income	**2013**	**19,329**	**4,998**	Noninterest bearing	Unsecured; no impairment
	2012	1,097	49,098		
	2011	127,589	–		
Due from related parties	**2013**	**(1,131,895)**	**1,281,276**	Noninterest bearing	Unsecured
	2012	1,040,720	2,413,171		
	2011	(384,608)	1,372,451		
Due to related parties	**2013**	**(1,173,710)**	**2,091,305**	Noninterest bearing	Unsecured;
	2012	530,600	3,265,015		
	2011	766,475	2,734,415		
Other Related Parties					
Receivable under common Stockholders	**2013**	**–**	**52,800**	Interest-bearing fixed at 4.5% in 2012 and 7.0% in 2011 & 2010	Unsecured; no impairment
	2012	(7,312,107)	52,800		
	2011	(281,621)	7,312,107		
Receivable for project development	**2013**	**147,529**	**3,231,672**	Noninterest-bearing	Unsecured; no impairment
	2012	1,962,578	3,084,143		
	2011	(88)	1,121,565		

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2013, 2012 and 2011, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year-end by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Related parties under common stockholders refer to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2013, 2012 and 2011 consist of short-term employee benefits amounting to ₱777.3 million, ₱708.7 million and ₱644.3 million, respectively, and post-employment benefits (pension benefits) amounting to ₱88.7 million, ₱144.4 million and ₱99.5 million, respectively.

23. Cost of Merchandise Sales

This account consists of:

	2013	2012	2011
		(In Thousands)	
Merchandise inventories at beginning of year	**₱13,402,762**	₱13,436,456	₱10,485,903
Purchases	**138,549,914**	117,862,994	115,143,309
Total goods available for sale	**151,952,676**	131,299,450	125,629,212
Less merchandise inventories at end of year	**13,232,308**	13,402,762	13,436,456
	₱138,720,368	₱117,896,688	₱112,192,756

24. Selling, General and Administrative Expenses

This account consists of:

	2013	2012	2011
		(In Thousands)	
Personnel cost (see Note 22)	**₱12,253,177**	₱10,942,505	₱9,842,436
Depreciation and amortization (see Notes 14 and 15)	**9,513,584**	8,057,871	7,193,100
Utilities	**7,792,591**	6,295,496	5,346,665
Rent (see Note 28)	**7,295,122**	4,876,327	3,463,656
Marketing and selling	**3,318,896**	3,528,501	2,373,630
Outside services	**3,163,822**	2,802,479	2,351,613
Taxes and licenses	**2,436,069**	3,964,767	3,212,041
Repairs and maintenance	**1,172,705**	1,062,124	958,955
Supplies	**1,066,982**	838,943	739,183
Management fees (see Note 22)	**1,062,906**	910,614	944,098
Provision for (reversal of) impairment loss and others (see Notes 10 and 13)	**(1,018,156)**	(2,635,569)	553,386
Insurance	**552,183**	470,633	357,743
Transportation and travel	**502,028**	436,156	341,716
Professional fees	**387,950**	460,268	199,378
Entertainment, representation and amusement	**241,857**	196,185	239,943
Data processing	**206,183**	98,472	8,825
Communications	**163,989**	122,666	104,357
Donations	**115,605**	297,629	201,533
Pension expense (benefit) (see Note 26)	**(92,085)**	235,499	234,746
Others	**908,389**	2,017,256	1,745,746
	₱51,043,797	₱44,978,822	₱40,412,750

25. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2013	2012	2011
		(In Thousands)	
Interest income on:			
Time deposits and short-term investments (see Note 8)	**₱2,245,719**	₱2,080,949	₱1,921,384
AFS investments and others (see Notes 9 and 12)	**523,303**	853,249	1,227,952
Cash in banks and temporary investments (see Note 7)	**912,152**	1,439,218	1,083,460
Investments held for trading (see Note 9)	**28,310**	43,330	41,844
	₱3,709,484	₱4,416,746	₱4,274,640
Interest expense on:			
Longterm debt (see Note 20)	**₱6,806,602**	₱7,325,871	₱6,249,515
Bank loans (see Note 18)	**3,960,390**	3,253,656	2,288,844
Others (see Note 30)	**176,409**	232,209	297,654
	₱10,943,401	₱10,811,736	₱8,836,013

26. Pension Benefits

The Group 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 Group obtained an updated actuarial valuation report for December 31, 2013 financial reporting.

a. Net Defined Benefit Liability

The following tables summarize the components of pension benefit expense recognized by the subsidiaries whose pension plan resulted in a defined benefit liability as at December 31, 2013, 2012 and 2011.

Pension Benefit Expense (Included under "Selling, General and Administrative Expenses," see Note 24)

	2013	2012	2011
		(In Thousands)	
Current service cost	**₱110,200**	₱30,196	₱33,872
Net interest cost	**235**	14,789	27,398
Expected return on plan assets	**–**	(12,685)	(24,820)
Recognized actuarial gain	**–**	(1,280)	(4,509)
Others	**(75,238)**	1,497	1,497
Net pension benefit expense	**₱35,197**	₱32,517	₱33,438

Remeasurement loss (Included under "Other Comprehensive Income")
The remeasurement loss for the year ended December 31, 2013, recognized as part of other comprehensive income, comprised of the following:

Actuarial losses (gains):	
Defined benefit obligation	₱113,034
Plan assets	(8,036)
Other adjustments	181,189
	₱286,187

Actuarial gains and losses in 2012 and 2011 were recognized when the net cumulative unrecognized gains and losses exceeded 10% of the higher of the defined benefit obligations and the fair value of the plan asset at the end of the previous period (see Note 3).

Defined Benefit Liability (Included under "Tenants' Deposits and Others")

	2013	2012
	(In Thousands)	
Present value of obligation	**₱1,395,264**	₱276,936
Fair value of plan assets	**1,240,943**	302,376
Funded status	**154,321**	(25,440)
Unrecognized actuarial gain	**–**	60,513
Others	**–**	(6,763)
Defined benefit liability	**₱154,321**	₱28,310

Changes in the Present Value of the Defined Benefit Obligation

	2013	2012	2011
		(In Thousands)	
Defined benefit obligation at beginning of year	**₱276,936**	₱442,619	₱695,108
Reclassifications from (to) defined benefit assets	**898,493**	(232,674)	(352,155)
Current service cost	**110,200**	30,196	33,872
Interest cost	**72,057**	14,789	27,398
Actuarial loss on defined benefit obligations	**–**	30,464	47,023
Remeasurement losses (gains):			
Changes in financial assumptions	**(54,605)**	–	–
Changes in demographic assumptions	**9,926**	–	–
Experience adjustment	**157,713**	–	–
Benefits paid	**(84,477)**	(6,307)	(13,696)
Transfer from (to) related parties	**9,021**	(2,151)	2,778
Other adjustments	**–**	–	2,291
Defined benefit obligation at end of year	**₱1,395,264**	₱276,936	₱442,619

Changes in the Fair Value of Plan Assets

	2013	2012	2011
		(In Thousands)	
Fair value of plan assets at beginning of year	**₱302,376**	₱494,554	₱732,189
Reclassifications from (to) defined benefit assets	**878,655**	(253,032)	(343,747)
Actual contributions	**55,510**	28,169	102,835
Actuarial gain on plan assets	**–**	28,458	10,104
Expected return on plan assets	**–**	12,685	24,820
Interest income	**71,822**	–	–
Remeasurement gain - return on plan assets	**8,036**	–	–
Benefits paid	**(84,477)**	(6,307)	(13,696)
Transfer from (to) related parties	**9,021**	(2,151)	2,778
Other adjustments	**–**	–	(20,729)
Fair value of plan assets at end of year	**₱1,240,943**	₱302,376	₱494,554

Unrecognized Actuarial Gain

	2013	2012	2011
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of year	**₱60,513**	₱131,766	₱219,047
Actuarial gain (loss) on:	**–**		
Plan assets	**–**	28,458	10,104
Defined benefit obligation	**–**	(30,464)	(47,023)
Reclassifications to defined benefit assets	**–**	(67,967)	(24,722)
Recognized actuarial gain	**–**	(1,280)	(4,509)
Other adjustments	**(60,513)**	–	(21,131)
Net cumulative unrecognized actuarial gain at end of year	**₱–**	₱60,513	₱131,766

b. Net Defined Benefit Asset

The following tables summarize the components of pension benefit expense recognized by the subsidiaries whose pension plan resulted in a defined benefit asset as at December 31, 2013, 2012 and 2011.

Pension Benefit Expense (Income) (Included under "Selling, General and Administrative Expenses," see Note 24)

	2013	2012	2011
		(In Thousands)	
Current service cost	**₱240,698**	₱232,910	₱206,172
Net interest cost (income)	**(39,644)**	177,343	150,945
Expected return on plan assets	**–**	(186,269)	(162,260)
Recognized actuarial loss (gain)	**–**	(13,888)	10,583
Effect of asset limit	**445**	(2,860)	1,435
Others	**(328,781)**	(4,254)	(5,567)
Net pension benefit expense (income)	**(₱127,282)**	₱202,982	₱201,308

Remeasurement gain (Included under "Other Comprehensive Income")
The remeasurement gain for the year ended December 31, 2013, recognized as part of other comprehensive income, is comprised of the following:

Actuarial losses (gains):	
Defined benefit obligation	₱6,276
Plan assets	(55,722)
Changes in the effect of the asset ceiling	(35,730)
Other adjustments	293
	(₱84,883)

Actuarial gains and losses in 2012 and 2011 were recognized when the net cumulative unrecognized gains and losses exceeded 10% of the higher of the defined benefit obligations and the fair value of the plan asset at the end of the previous period (see Note 3).

Defined Benefit Asset (Recorded as part of "Other Noncurrent Assets," see Note 17)

	2013	2012
	(In Thousands)	
Present value of obligation	**₱2,640,893**	₱3,234,528
Fair value of plan assets	**3,343,406**	3,967,810
Funded status	**(702,513)**	(733,282)
Amount not recognized due to asset limit	**86,531**	(7,404)
Unrecognized actuarial gain	**–**	292,384
Others	**–**	(4,608)
Defined benefit asset	**(₱615,982)**	(₱452,910)

Changes in the Present Value of the Defined Benefit Obligation

	2013	2012	2011
		(In Thousands)	
Defined benefit obligation at beginning of year	**₱3,234,528**	₱2,269,976	₱1,618,563
Reclassifications from (to) defined benefit liability	**(898,493)**	232,674	352,155
Current service cost	**240,698**	232,910	206,172
Interest cost	**145,294**	177,343	150,945
Actuarial loss on defined benefit obligations	**–**	366,834	140,848
Remeasurement losses (gains):			
Changes in financial assumptions	**(154,212)**	–	–
Changes in demographic assumptions	**54,555**	–	–
Experience adjustments	**105,933**	–	–
Benefits paid	**(166,950)**	(68,621)	(181,173)
Transfer to related parties	**(4,855)**	(57,896)	(12,590)
Other adjustments	**84,395**	81,308	(4,944)
Defined benefit obligation at end of year	**₱2,640,893**	₱3,234,528	₱2,269,976

Changes in the Fair Value of Plan Assets

	2013	2012	2011
		(In Thousands)	
Fair value of plan assets at beginning of year	**₱3,967,810**	₱2,994,978	₱2,437,705
Reclassifications from (to) defined benefit liability	**(878,655)**	253,031	343,747
Actual contributions	**71,661**	313,700	337,732
Actuarial gain on plan assets	**–**	333,746	56,398
Expected return on plan assets	**–**	186,269	162,260
Interest income	**189,689**	–	–
Remeasurement gain - Return on plan assets	**55,722**	–	–
Benefits paid	**(166,950)**	(68,621)	(181,173)
Transfer to related parties	**(4,855)**	(57,896)	(12,590)
Other adjustments	**108,984**	12,603	(149,101)
Fair value of plan assets at end of year	**₱3,343,406**	₱3,967,810	₱2,994,978

Unrecognized Actuarial Gain

	2013	2012	2011
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of year	**₱292,384**	₱321,952	₱510,542
Actuarial gain (loss) on:	**–**		
Defined benefit obligation	**–**	(366,834)	(140,848)
Plan assets	**–**	333,746	56,398
Reclassifications from defined benefit liability	**–**	67,968	24,722
Recognized actuarial (gain) loss	**–**	(13,888)	10,583
Other adjustments	**(292,384)**	(50,560)	(139,445)
Net cumulative unrecognized actuarial gain at end of year	**₱–**	₱292,384	₱321,952

The expected overall rate of return on assets is determined based on historical returns, applicable to the period over which obligation is to be settled. These are reflected in the principal assumptions below.

	2013	2012
Discount rate	**4%–6%**	4%–7%
Expected rate of return on assets	**N/A**	5%-8%
Future salary increases	**10%**	10%–11%

The assets of the Retirement Plan are held by a trustee bank. The investing decisions of the Plan are made by the Board of Trustees of the Retirement Plan. The following table presents the carrying amounts and estimated fair values of the assets of the Retirement Plan:

	2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱117,834**	**₱117,834**	₱171,751	₱171,751
Investment in debt and other securities	**714,898**	**714,898**	450,728	450,728
Investment in common trust funds	**1,723,165**	**1,723,165**	1,736,086	1,736,086
Investment in equity securities	**123,443**	**123,443**	183,913	183,913
Investment in government securities	**1,865,037**	**1,865,037**	1,692,804	1,692,804
Others	**39,972**	**39,972**	34,904	34,904
	₱4,584,349	**₱4,584,349**	₱4,270,186	₱4,270,186

The Retirement Plans' assets and investments consist of the following:

- Cash and cash equivalents includes regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 5.45% to 8.46% and have maturities from April 2014 to September 2022;
- Investment in common trust funds consists of unit investment trust fund.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 5.00% to11.14% and have maturities from July 2013 to October 2037; and
- Other financial assets held by the Retirement Plan are primarily accrued interest income on cash deposits and debt securities held by the Plan.

The following table summarizes the outstanding balances and transactions of the Retirement Plan with the reporting entity and BDO Unibank, Inc., a related party as at and for the year ended December 31, 2013 and December 31, 2012:

	2013	2012
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱110,392**	₱171,151
Investment in common trust funds	**1,723,165**	1,736,086
Transactions:		
Interest income from cash and cash equivalents	**3,456**	2,826
Gains from Investment in common trust funds	**54,711**	456,634

The Group expects to contribute about ₱341.9 million to its defined benefit pension plan in 2014.

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	100	(₱4,325)
	(100)	4,927
	50	(275,558)
	(50)	306,110
Future salary increases	100	584,572
	(100)	(489,141)
No attrition of rates	–	3,070,593

The Group has no specific matching strategies between the retirement plan assets and the defined benefit obligation.

27. Income tax

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

	2013	2012
	(In Thousands)	
Deferred tax assets - net:		
Unrealized gain on intercompany sale of investment property	**₱1,201,479**	₱–
Deferred rent expense	**504,342**	–
Unamortized past service cost and defined benefit liability	**201,080**	100,129
NOLCO	**122,118**	17,131
Unrealized mark-to-market loss on investments	**106,574**	40,517
Accrued leases	**44,071**	43,070
Unrealized foreign exchange loss and others	**(6,865)**	362,005
MCIT	**–**	79,253
	₱2,172,799	₱642,105
Deferred tax liabilities - net:		
Appraisal increment on investment property	**₱2,276,990**	₱–
Trademarks and brand names	**1,879,000**	1,837,429
Capitalized interest	**1,614,650**	1,276,303
Accrued/deferred rent income	**313,461**	169,831
Unrealized gross profit on sale of real estate	**310,878**	301,382
Unamortized past service cost and defined benefit asset	**189,650**	54,905
Unrealized foreign exchange gain	**–**	791,671
Unrealized marked-to-market gain on investments	**–**	45,723
Others	**385,898**	65,674
	₱6,970,527	₱4,542,918

The following are the movements in NOLCO and MCIT:

	2013	2012
	(In Thousands)	
NOLCO:		
Balance at beginning of year	**₱57,103**	₱32,210
Additions	**349,957**	24,893
Balance at end of year	**₱407,060**	₱57,103
MCIT:		
Balance at beginning of year	**₱79,253**	₱61,248
Additions	**(79,253)**	18,005
Balance at end of year	**₱–**	₱79,253

The Group's consolidated deferred tax assets as at December 31, 2013 and 2012 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertain to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

	2013	2012
	(In Thousands)	
Allowance for impairment losses	**₱488,683**	₱1,889,215
Net unrealized foreign exchange loss	**381,078**	2,011,810
Defined benefit liability	**65,597**	–
Past service cost	**54,917**	36,672
Nonrefundable advance rentals	**24,920**	66,456
NOLCO	**–**	1,630,269
Accretion on convertible bonds	**–**	297,707
MCIT	**–**	122,669
	₱1,015,195	₱6,054,798

NOLCO and MCIT amounting to ₱1,752.9 million as at December 31, 2012 was applied in 2013.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax is as follows:

	2013	2012	2011
Statutory income tax rate	**30%**	30%	30%
Add (deduct) income tax effects of reconciling items:			
Equity in net earnings of associates	**(9)**	(7)	(5)
Dividend income exempt from tax	**(1)**	(1)	(1)
Interest income subjected to final tax	**(2)**	(3)	(3)
Gain on sale of shares of stock	–	–	(3)
Others	**(2)**	(3)	(2)
Change in unrecognized deferred tax assets	**(4)**	–	(1)
Effective income tax rates	**12%**	16%	15%

28. Lease Agreements

Parent Company
The Parent Company's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for a few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants' deposits amounted to ₱10,527.6 million and ₱11,691.8 million as at December 31, 2013 and 2012, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at December 31 are as follows:

	2013	2012
	(In Thousands)	
Within one year	**₱791,487**	₱738,122
After one year but not more than five years	**2,902,785**	2,230,084
After five years	**1,792,043**	5,512,218
Balance at end of year	**₱5,486,315**	₱8,480,424

SM Prime
As Lessor. The lease agreements of SM Prime and its subsidiaries with their 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, SM Prime and its subsidiaries' 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.

SM Prime's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2013	2012
	(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

As Lessee. SM Prime and its subsidiaries also lease 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, SM Prime and its subsidiaries have 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 minimum lease payables under the noncancellable operating leases of SM Prime as at December 31 are as follows:

	2013	2012
	(In Millions)	
Within one year	**₱735**	₱428
After one year but not more than five years	**3,261**	1,810
After five years	**27,330**	21,042
Balance at end of year	**₱31,326**	₱23,280

29. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, nondeliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized in the following tables. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk
The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2013 and 2012:

2013

	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/ Discount	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$383,463	$–	$–	₱17,023,867	(₱112,588)	₱16,911,280
Interest rate	–	–	5.50%	–	–			
US$500 million fixed rate bonds	379,156	–	–	–	–	16,832,631	(42,037)	16,790,593
Interest rate	6.00%	–	–	–	–			
US$250 million convertible bonds	–	–	–	84,084	–	3,732,919	(60,787)	3,672,132
Interest rate	–	–	–	1.63%	–			
US$500 million Senior bonds	–	–	–	–	500,000	22,197,500	(210,645)	21,986,855
Interest rate	–	–	–	–	4.25%			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱–	₱–	₱2,000,000	₱18,757,800	₱11,605,600	₱32,363,400	(₱175,781)	₱32,187,619
Interest rate	–	–	4.72%	4.00%-6.81%	5.90%-10.11%			
Five-year and seven-year retail bonds	8,400,000	–	1,000,000	–	–	9,400,000	(13,795)	9,386,205
Interest rate	8.25%	–	9.10%	–	–			
Seven-year and ten-year retail bonds	–	–	–	–	13,082,270	13,082,270	(89,961)	12,992,309
Interest rate	–	–	–	–	6.00%-6.94%			
Ten-year corporate notes	–	–	–	–	1,100,000	1,100,000	(6,906)	1,093,094
Interest rate	–	–	–	–	10.11%			
Other bank loans	1,379,500	1,538,100	315,000	–	7,350,000	10,582,600	(26,880)	10,555,720
Interest rate	5.00%-5.68%	5.00%-9.75%	4.50%	–	4.03%-5.88%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	–	–	$570,000	–	–	25,305,150	(426,877)	24,878,273
Interest rate	–	–	LIBOR+margin%	–	–			
China Yuan renminbi loans	¥386,761	¥62,782	–	–	–	3,197,597	–	3,197,597
Interest rate	5.76%-6.20%	5.76%-6.20%	–	–	–			
US$ bilateral loans	–	–	–	$25,000	–	1,109,876	(5,995)	1,103,881
Interest rate	–	–	–	LIBOR+margin%	–			
US$ five-year syndicated loans	–	–	–	500,000	–	22,197,500	(473,025)	21,724,475
Interest rate	–	–	–	LIBOR+margin%	–			
Other bank loans	–	–	50,000	50,000	–	4,439,500	(55,869)	4,383,631
Interest rate	–	–	LIBOR+margin%	LIBOR+margin%	–			
Peso Loans:	–	–	–	–	–			
Peso loans collateralized with time deposits	–	–	₱3,000,000	–	–	3,000,000	(3,457)	2,996,543
Interest rate	–	–	PDST-F+margin%	–	–			
(Forward)								
Five-year, seven-year and ten-year corporate notes	–	–	₱1,746,000	–	₱4,850,000	₱6,596,000	(₱25,068)	₱6,570,932
Interest rate	–	–	PDST-F+margin%	–	PDST-F+margin%			
Five-year and ten-year corporate notes	–	–	–	3,415,500	990,000	4,405,500	(28,297)	4,377,203
Interest rate	–	–	–	PDST-F+margin%	PDST-F+margin%			
Five-year floating rate loan	–	–	4,900,000	–	–	4,900,000	(20,390)	4,879,610
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year bilateral loans	–	–	500,000	–	–	500,000	(1,545)	498,455
Interest rate	–	–	PDST-F+margin%	–	–			
Other bank loans	5,000,000	2,793,460	–	198,000	2,000,000	9,991,460	(21,830)	9,969,630
Interest rate	PDST-F+margin%	PDST-F+margin%		PDST-F+margin%	PDST-F+margin%			
						₱211,957,770	(₱1,801,733)	₱210,156,037

2012

	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/Discount	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$381,042	$–	₱15,641,760	(₱127,984)	₱15,513,776
Interest rate	–	–	–	5.50%	–			
US$500 million fixed rate bonds	–	379,156	–	–	–	15,564,354	(89,610)	15,474,744
Interest rate	–	6.00%	–	–	–			
US$350 million fixed rate bonds	245,623	–	–	–	–	10,082,824	(17,119)	10,065,705
Interest rate	6.75%	–	–	–	–			
US$250 million convertible bonds	–	–	229,173	–	–	9,407,559	(183,247)	9,224,312
Interest rate	–	–	1.63%	–	–			
US$500 million Senior bonds	–	–	–	–	500,000	20,525,000	(215,069)	20,309,931
Interest rate	–	–	–	–	4.25%			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱2,078,500	₱78,500	₱10,078,500	₱8,077,400	₱6,650,100	26,963,000	(144,816)	26,818,184
Interest rate	5.86%-6.81%	5.86%-6.81%	5.86%-7.73%	5.86%-6.81%	5.86%-9.85%			
Five-year and seven-year retail bonds	–	8,400,000	–	1,000,000	–	9,400,000	(32,108)	9,367,892
Interest rate	–	8.25%	–	9.10%	–			
Seven-year and Ten-year retail bonds	–	–	–	–	14,282,270	14,282,270	(118,549)	14,163,721
Interest rate	–	–	–	–	6.00%-6.94%			
Five-year fixed rate notes	1,000	1,000	1,000	6,696,043	–	6,699,043	(36,984)	6,662,059
Interest rate	6.17%	6.17%	6.17%–	6.17%	–			
Five-year and ten-year corporate notes	–	–	–	–	1,100,000	1,100,000	(7,849)	1,092,151
Interest rate	–		–	–	10.11%			
Seven-year and ten-year corporate notes	5,000	5,000	5,000	10,000	4,970,000	4,995,000	(37,757)	4,957,243
Interest rate	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	1,097,300	66,145	756,555	1,960,000	(10,332)	1,949,668
Interest rate	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%	5.89%-6.65%	6.65%			
Other bank loans	8,750	1,380,500	1,339,300	1,200,000	2,050,000	5,978,550	(13,070)	5,965,480
Interest rate	6.75%	5.69%-6.75%	3.6%-7.28%	9.75%	6.71%-8.79%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$280,000	$–	11,494,000	(195,854)	11,298,146
(Forward)								

	2012							
	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/Discount	Carrying Amount
				(In Thousands)				
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi 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%		–			
US$ bilateral loans	$25,000	$–	$–	$–	$–	1,026,250	(5,008)	1,021,242
Interest rate	LIBOR+margin %	–	$–	–	–			
Other bank loans	$–	$–	$50,000	$–	$–	2,052,500	(15,572)	2,036,928
Interest rate	–	–	LIBOR+margin %	–	–			
Peso Loans:								
Peso loans collateralized with time deposits	–	–	₱3,000,000	–	–	3,000,000	(6,635)	2,993,365
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year, seven-year and ten-year corporate notes	30,000	30,000	2,880,000	–	–	2,940,000	(25,829)	2,914,171
Interest rate	PDST-F+margin%	–	PDST-F+margin%	–	–			
Five-year floating rate loan	96,500	96,500	96,500	8,360,500	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%			
Five-year bilateral loans	–	–	–	500,000	–	500,000	(2,009)	497,991
Interest rate	–	–	–	PDST-F+margin%	–			
Other bank loans	30,000	5,180,000	4,955,000	3,000,000	–	13,165,000	(18,384)	13,146,616
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–			
						₱189,760,596	(₱1,368,167)	₱188,392,429

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (see Note 30). As at December 31, 2013 and 2012, after taking into account the effect of the swaps, approximately 63% of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as at FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2013	**100**	**(₱836.4)**	**(₱129.8)**
	50	**(418.2)**	**(65.3)**
	(100)	**836.4**	**135.9**
	(50)	**418.2**	**67.5**
2012	100	(437.2)	(133.5)
	50	(218.6)	(58.9)
	(100)	437.2	174.8
	(50)	218.6	95.2

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, nondeliverable forwards and foreign currency range options (see Note 30) with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2013 and 2012:

	2013	
	US$	**PhP**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**$5,999**	**₱266,316**
Time deposits and short-term investments	**705,501**	**31,320,708**
AFS investments	**5,250**	**233,074**
Receivables	**448,365**	**19,905,182**
Noncurrent assets:		
AFS investments	**124,785**	**5,539,822**
Time deposits	**585,000**	**25,971,075**
Derivative assets	**39,059**	**1,734,034**
Total foreign currency-denominated financial assets	**1,913,959**	**84,970,211**
Current liabilities:		
Bank loans	**$50,000**	**₱2,219,750**
Accounts payable and other current liabilities	**34,985**	**1,553,191**
Noncurrent liabilities:		
Long-term debt - net of current portion	**2,183,908**	**96,954,602**
Derivative liabilities	**3,603**	**159,974**
Total foreign currency-denominated financial liabilities	**2,272,496**	**100,887,517**
Net foreign currency-denominated financial liabilities	**$358,537**	**₱15,917,306**

	2012	
	US$	PhP
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$20,355	₱835,593
Time deposits and short-term investments	111,941	4,595,167
AFS investments	17,875	733,752
Receivables	334,142	13,716,529
Noncurrent assets:		
AFS investments	146,028	5,994,458
Time deposits	1,095,480	44,969,454
Derivative assets	2,679	109,973
Other noncurrent assets	24,151	991,431
Total foreign currency-denominated financial assets	1,752,651	71,946,357
Current liabilities:		
Bank loans	50,000	2,052,500
Accounts payable and other current liabilities	92,297	3,788,792
Current portion of long-term debt	245,623	10,082,824
Noncurrent liabilities:		
Long-term debt - net of current portion	1,762,239	72,339,915
Derivative liabilities	5,952	244,330
Total foreign currency-denominated financial liabilities	2,156,111	88,508,361
Net foreign currency-denominated financial liabilities	$403,460	₱16,562,004

As at December 31, 2013 and 2012, approximately 41.7% and 38.4% respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine Peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱59.4 million, ₱565.1 million and ₱242.9 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2013, 2012 and 2011, respectively. This resulted from the movements of the closing rates of U.S. dollar against the Philippine Peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2011	43.84
December 31, 2012	41.05
December 31, 2013	44.40

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 Group's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments).

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Millions)
2013	**1.50**	**₱537.8**
	1.00	**358.5**
	(1.50)	**(537.8)**
	(1.00)	**(358.5)**
2012	1.50	605.2
	1.00	403.5
	(1.50)	(605.2)
	(1.00)	(403.5)

Liquidity Risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of its liquidity risk management program, the Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments -bonds and corporate notes amounting to ₱50,209.7 million, ₱28,912.7 million, ₱459.8 million and nil, respectively, as at December 31, 2013 and ₱60,714.2 million, ₱29,090.3 million, ₱459.3 million and ₱1,734.0 million, respectively, as at December 31, 2012 (see Notes 7, 8 and 9). The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2013 and 2012 based on the contractual undiscounted payments:

	2013				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱27,588,259**	**₱–**	**₱–**	**₱27,588,259**
Accounts payable and other current liabilities*	**–**	**64,416,727**	**–**	**–**	**64,416,727**
Long-term debt (including current portion)	**–**	**38,296,386**	**138,091,911**	**66,216,033**	**242,604,330**
Derivative liabilities:**					
Interest rate swaps	**–**	**–**	**159,974**	**–**	**159,974**
Multiple derivatives on convertible bonds	**–**	**845,429**	**–**	**–**	**845,429**
Dividends payable	**–**	**210,189**	**–**	**–**	**210,189**
Tenants' deposits	**–**	**–**	**10,527,581**	**–**	**10,527,581**
	₱–	**₱131,356,990**	**₱148,779,466**	**₱66,216,033**	**₱346,352,489**

	2012				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱33,146,253	₱–	₱–	₱33,146,253
Accounts payable and other current liabilities*	–	55,531,106	–	–	55,531,106
Long-term debt (including current portion)	–	16,077,517	144,860,929	69,106,024	230,044,470
Derivative liabilities:**					
Non-deliverable forward	–	18,501	–	–	18,501
Interest rate swaps	–	–	244,330	–	244,330
Foreign currency swap	–	2,020	–	–	2,020
Multiple derivatives on convertible bonds	–	2,473,130	–	–	2,473,130
Dividends payable	–	97,282	–	–	97,282
Tenants' deposits	–	146,360	11,123,172	77,786	11,347,318
	₱–	₱107,492,169	₱156,228,431	₱69,183,810	₱332,904,410

* *Excluding payable to government agencies of ₱3,671.6 million and ₱2,334.8 million at December 31, 2013 and 2012, respectively, the amounts of which are not considered as financial liabilities.*
** *Based on estimated future cash flows.*

Credit Risk
The Group trades only with recognized, creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral.

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

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2013 and 2012, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

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

High Quality. This pertains to a counterparty who is not expected by the Group 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 analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	2013		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱48,999,592**	**₱–**	**₱48,999,592**
Time deposits and short-term investments (including noncurrent portion)	**55,993,600**	**–**	**55,993,600**
Investments held for trading -			
Bonds	**459,754**	**–**	**459,754**
AFS investments	**17,154,400**	**3,918**	**17,158,318**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**30,313,593**	**5,802,860**	**36,116,453**
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet)	**13,649,588**	**–**	**13,649,588**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**218,124**	**–**	**218,124**
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	**2,643,487**	**–**	**2,643,487**
	₱169,432,138	**₱5,806,778**	**₱175,238,916**

	2012		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱59,646,460	₱–	₱59,646,460
Time deposits and short-term investments (including noncurrent portion)	58,523,185	–	58,523,185
Investments held for trading -			
Bonds	459,343	–	459,343
AFS investments	19,303,356	4,488	19,307,844
Receivables - net (including noncurrent portion of receivables from real estate buyers)	25,883,925	4,623,017	30,506,942
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet)	14,238,828	–	14,238,828
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	200,000	–	200,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	306,724	–	306,724
Derivative assets	128,480	–	128,480
	₱178,690,301	₱4,627,505	₱183,317,806

Equity Price Risk
The Group'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:

	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
2013	**+6.69%**	**₱1,815.7**
	-6.69%	**(1,815.7)**
2012	+14.37%	1,950.5
	-14.37%	(1,950.5)

Capital Management
Capital includes equity attributable to the owners of the Parent.

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

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

The Group monitors its capital gearing by measuring the ratio of net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50.

As at December 31, 2013 and 2012, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

	2013	2012
	(In Thousands)	
Bank loans	₱27,588,259	₱31,793,975
Long-term debt	210,156,037	188,392,429
Less:		
Cash and cash equivalents (excluding cash on hand)	(48,999,592)	(59,646,460)
Time deposits and short-term investments	(55,993,600)	(58,523,185)
AFS investments (bonds and corporate notes)	(5,539,822)	(7,728,240)
Long-term notes included under "Other noncurrent assets" account	(218,124)	(306,724)
Total net interest-bearing debt (a)	126,993,158	93,981,795
Total equity attributable to owners of the Parent	219,433,817	188,074,132
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	₱346,426,975	₱282,055,927
Gearing ratio (a/b)	37%	33%

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

	2013	2012
	(In Thousands)	
Bank loans	₱27,588,259	₱31,793,975
Long-term debt	210,156,037	188,392,429
Total interest-bearing debt (a)	237,744,296	220,186,404
Total equity attributable to owners of the Parent	219,433,817	188,074,132
Total interest-bearing debt and equity attributable to owners of the Parent (b)	₱457,178,113	₱408,260,536
Gearing ratio (a/b)	52%	54%

30. **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, recognized as at December 31, 2013 and 2012:

	2013				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL:					
Investments held for trading -					
Bonds	₱459,754	₱459,754	₱459,754	₱–	₱–
Derivative assets	2,643,487	2,643,487	–	2,643,487	–
	3,103,241	3,103,241	459,754	2,643,487	–
AFS investments:					
Shares of stock	11,607,236	11,539,018	11,539,018	–	–
Bonds and corporate notes	5,539,822	5,539,822	5,539,822	–	–
Club shares	11,260	11,260	11,260	–	–
	17,158,318	17,090,100	17,090,100	–	–
	20,261,559	20,193,341	17,549,854	2,643,487	–

(Forward)

	2013				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Cash and cash equivalents	₱50,209,657	₱50,209,657	₱–	₱–	₱50,209,657
Time deposits and short-term investments (including noncurrent portion)	55,993,600	58,549,481	–	–	58,549,481
Receivables - net (including noncurrent portion of receivables from real estate buyers)	37,274,237	37,274,237	–	–	37,274,237
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	13,649,588	13,649,588	–	–	13,649,588
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	218,124	264,656	–	–	264,656
	157,345,206	159,947,619	–	–	159,947,619
	₱177,606,765	₱180,140,960	₱17,549,854	₱2,643,487	₱159,947,619
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	₱1,005,403	₱1,005,403	₱–	₱159,974	₱845,429
(Forward)					
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Bank loans	27,588,259	27,588,259	27,588,259	–	–
Accounts payable and other current liabilities*	64,416,727	64,416,727	–	–	64,416,727
Long-term debt (including current portion and net of unamortized debt issue cost)	210,156,037	224,775,629	–	–	224,775,629
Dividends payable	210,189	210,189	–	–	210,189
Tenants' deposits and others	17,967,224	13,047,622	–		13,047,622
	320,338,436	330,038,426	27,588,259	–	302,450,167
	₱321,343,839	₱331,043,829	₱27,588,259	₱159,974	₱303,295,596

*Excluding payable to government agencies of ₱3,671.6 million at December 31, 2013, the amounts of which are not considered as financial liabilities.

	2012				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL:					
Investments held for trading -					
Bonds	₱459,343	₱459,343	₱459,343	₱–	₱–
Derivative assets	128,480	128,480	–	128,480	–
	587,823	587,823	459,343	128,480	–
AFS investments:					
Shares of stock	11,618,836	11,516,716	11,516,716	–	–
Bonds and corporate notes	7,728,240	7,728,240	7,728,240	–	–
Club shares	5,900	5,900	5,900	–	–
	19,352,976	19,250,856	19,250,856	–	–
	19,940,799	19,838,679	19,710,199	128,480	–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Cash and cash equivalents	60,714,720	60,714,720	–	–	60,714,720
Time deposits and short-term investments (including noncurrent portion)	58,523,185	62,048,610	–	–	62,048,610
Receivables - net (including noncurrent portion of receivables from real estate buyers)	30,767,065	29,466,700	–	–	29,466,700
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	11,316,886	11,316,886	–	–	11,316,886
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	306,724	331,519	–	–	331,519
	161,628,580	163,878,435	–	–	163,878,435
	₱181,569,379	₱183,717,114	₱19,710,199	₱128,480	₱163,878,435

	2012				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	₱2,737,981	₱2,737,981	₱–	₱264,851	₱2,473,130
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Bank loans	31,793,975	31,793,975	31,793,975	–	–
Accounts payable and other current liabilities*	55,531,106	55,531,106	–	–	55,531,106
Long-term debt (including current portion and net of unamortized debt issue cost)	188,392,429	230,044,469	–	–	230,044,469
Dividends payable	97,282	97,282	–	–	97,282
Tenants' deposits and others	14,500,317	14,976,358	–	–	14,976,358
	290,315,109	332,443,190	31,793,975	–	300,649,215
	₱293,053,090	₱335,181,171	₱31,793,975	₱264,851	₱303,122,345

Excluding payable to government agencies of ₱2,334.8 million at December 31, 2012, the amounts of which are not considered as financial liabilities.

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.

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.

Cash and Cash Equivalents. The carrying amounts reported in the consolidated balance sheets approximate its fair value, due to its short-term nature.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 0.18% to 2.09% and 0.50% to 6.55% as at December 31, 2013 and 2012, respectively.

Receivables and Advances and Other Receivables included under "Other current assets" account. The carrying values of short-term receivables approximate their fair values due to their short-term maturities. 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. The discount rates used ranged from 5.0% to 7.5% and 5.5% to 8.0% as at December 31, 2013 and 2012, respectively.

Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of long-term notes are based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for long-term notes range is .01% to 3.21% and 0.45% to 4.13% as at December 31, 2013 and 2012.

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. For 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.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.02% to 4.76% and 1.52% to 9.10% 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 0.5% to 3.8% and 1.73% to 5.91% as at December 31, 2013 and 2012, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 0.27% to 4.51% and 0.50% to 5.91% as at December 31, 2013 and 2012, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps, cross currency swaps, and non-deliverable forwards are based on quotes obtained from counterparties classified under Level 2 of the fair value hierarchy. The fair value of the embedded options relating to the Parent Company's convertible bonds were classified under Level 3 because the credit spread used as input to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values. The fair values of the embedded option were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Significant unobservable inputs to valuation	Range
USD Risk-free rate	0.015%–1.806%
Credit spread	4.350%

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2013	**100 bps**	**(₱124,528)**
	(100) bps	**129,032**
2012	100 bps	(370,183)
	(100) bps	387,334

Show below is the rollforward analysis of the fair value changes of this financial instrument for the year ended December 31, 2013:

Balance at beginning of year	(₱2,473,130)
Fair value changes	(1,335,209)
Conversions	2,962,910
Balance at December 31, 2013	(₱845,429)

The fair value changes during the year were recognized under "Gain or loss on fair value changes on derivatives - net" account and "Foreign exchange gain – net" account in the consolidated statement of comprehensive income.

Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, nondeliverable forwards and foreign currency range options. The Group also has embedded derivatives bifurcated from the Parent Company's convertible bonds.

Derivative Assets

	2013	2012
	(In Thousands)	
Parent (see Note 17):		
Cross-currency swaps	**₱864,677**	₱–
Nondeliverable forwards	**–**	18,501
SM Prime (see Note 17):		
Cross-currency swaps	**1,668,400**	–
Interest rate swaps	**110,410**	109,979
	₱2,643,487	₱128,480

Derivative Liabilities

	2013	2012
	(In Thousands)	
Parent (see Note 19):		
Options arising from convertible bonds	**₱845,429**	₱2,473,130
Nondeliverable forwards	**–**	18,501
Foreign currency swap	**–**	2,020
SM Prime (see Note 29) -		
Interest rate swaps	**159,974**	244,330
	₱1,005,403	₱2,737,981

Derivative Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on January 29, 2013, April 16, and June 2013. (see Note 29).

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	(In Thousands)			
	(In US$)	*(In Ph₱)*		
Parent -				
Unsecured loans	US$180,000	₱7,425,450	6-month US LIBOR + 1.70%	May 15, 2018
SM Prime:				
Unsecured loan	US$200,000	₱8,879,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	US$150,000	₱6,659,250	6-month US LIBOR + 1.70%	March 23,2018

The table below provides the details of the Group's outstanding cross-currency swaps as at December 31, 2013:

	Notional Amounts		Receive	Pay	US$: ₱ Rate	Maturity	Fair Value Gain
	(In Thousands)						*(In Thousands)*
	(In US$)	*(In Ph₱)*					
Parent:							
Floating-to-Fixed	50,000	2,059,250	6M US LIBOR + 1.70%	4.05%	₱41.19	May 15, 2018	₱240,779
Floating-to-Fixed	60,000	2,478,000	6M US LIBOR + 1.70%	4.03%	41.30	May 15, 2018	283,828
Floating-to-Fixed	70,000	2,888,200	6M US LIBOR + 1.70%	3.98%	41.26	May 15, 2018	340,070
SM Prime:							
Floating-to-Fixed	150,000	6,100,500	6M US LIBOR + 1.70%	3.70%	40.67	January 29, 2018	741,311
Floating-to-Fixed	50,000	2,033,500	6M US LIBOR + 1.70%	3.70%	40.67	January 29, 2018	256,939
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018	219,342
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018	219,029
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018	231,779

Under the floating-to-fixed cross-currency swaps, the Parent Company and SM Prime effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans where, at inception, it agreed to swap US dollar principal equal to the face amount of the loans for their agreed Philippine peso equivalents with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped. The agreements also require the Parent Company and SM Prime 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 hedged loans.

Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps of the Group designates as cash flow hedges as at December 31, 2013 amounting to ₱2,533.2 million gain were taken to equity under "Cumulative translation adjustment". No ineffectiveness was recognized in the consolidated statement of income for the twelve-month period ended December 31, 2013. Foreign currency translation loss arising from the hedged loans of the Group amounting to ₱1,804.7 million was recognized in the consolidated statement of income for the twelve-month period 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 period.

Other Derivative Instruments Not Designated as Hedges

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

2013	<1 Year	>1–<2 Years	>2–<5 Years
	(Amounts in Thousands)		
Floating-Fixed			
Outstanding notional amount	$145,000	$145,000	$–
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	$30,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.53%	3.53%	
Outstanding notional amount	$20,000	$20,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.18%	3.18%	
2 additional contracts	₱174,720	₱174,720	–
Receive-fixed rate	3.65%	4.95%	
Pay-floating rate	3MPDST-F	3MPDST-F	
Fixed-Floating			
Outstanding notional amount	₱960,000	₱950,000	–
Receive-fixed rate	5.44%	5.44%	
Pay-floating rate	3MPDST-F	3MPDST-F	
Outstanding notional amount	₱960,000	₱950,000	–
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
	(Amounts in Thousands)		
Floating-Fixed			
Outstanding notional amount	$145,000	$145,000	$145,000
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	$30,000	$30,000
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	$20,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.18%	3.18%	
Outstanding notional amount	$25,000	$–	$–
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	4.10%		
(Forward)			
Fixed-Floating			
Outstanding notional amount	₱970,000	₱960,000	₱950,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱970,000	₱960,000	₱950,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Derivative Liabilities

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds and were accounted for as single compound derivative. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 (₱26.9 at present) per share at the fixed exchange rate of ₱40.6 per US$1.0 until January 31, 2013, subject to a cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option, which expired on February 11, 2011, pertains to the right of the Parent Company to require the issuer to redeem the bonds at 115.6%.

As at December 31, 2013 and 2012, all outstanding embedded derivatives of the convertible bonds have nil values.

Options Arising from Convertible Bonds. The Parent Company's and SM Prime's convertible bonds contain multiple embedded derivatives such as short equity call option, long call option and short put option, which were bifurcated and accounted for as single compound derivative.

US$250.0 million Convertible Bonds

As at December 31, 2013 and 2012, the negative fair value of the multiple embedded derivatives, which is shown as a current liability in the parent company balance sheets, amounted to ₱845.4 million and ₱2,473.1 million, respectively. At inception date, the negative fair value of the options amounted to ₱1,193.9 million. In 2013 and 2012, the Parent Company recognized a net fair value change from these options amounting to ₱1,105.7 million loss and ₱1,279.2 million loss which is recognized under "Gain (loss) on fair value changes on derivatives - net" account and ₱229.6 million loss which is recognized under "Foreign exchange gain - net" account in the consolidated statements of income. Also, as a result of the exercise of the conversion option at various dates in 2013 (see Note 21), ₱2,962.9 million of the option value was transferred from derivative liabilities to "Additional paid-in capital" (APIC) account in the parent company balance sheets.

US$300.0 million Convertible Bonds

Net fair value changes of the multiple embedded derivatives recognized in the 2012 parent company statement of comprehensive income include ₱131.5 million mark-to-market loss and ₱28.7 million gain arising from the expiry of options which are reflected under "Gain (loss) on fair value changes of derivatives - net" account in the parent company statements of comprehensive income. Also, as a result of the exercise of the conversion option at various dates in 2012 (see Note 21), ₱219.3 million of the option value was transferred from derivative liabilities to "Additional paid-in capital" (APIC) account in the parent company balance sheets.

Interest Rate Swaps. In 2011, the SM Prime entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SM Prime 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.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SM Prime 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 swap has negative fair value of ₱10 million and ₱17 million, respectively.

In 2010, the SM Prime entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at December 31, 2013 and 2012, the floating to fixed interest rate swap has negative fair value of ₱36 million and ₱48 million, respectively.
- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). In 2013, SMPH entered into two floating to fixed opposite-side Philippine peso interest rate swap agreements for a partial notional amount of ₱174.7 million each to effectively unwind the original swap in line with the Company's partial prepayment of the loan. As at December 31, 2013, these swaps have negative fair values of ₱9 million.
- A US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, SM Prime 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, SM Prime entered into US$ interest rate swap agreements with aggregate notional amount of US$25 million. Under these agreements, SM Prime 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 swaps 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 swaps have negative fair value of ₱22 million.

Foreign Currency Swap. In 2012, the Parent Company entered into sell ₱ and buy US$ foreign currency swap contracts. It also entered into sell US$ and buy ₱ with the same aggregate notional amount. Net fair value changes recognized by the Parent Company in the consolidated statement of income amount to ₱2.0 million loss and ₱9.0 million gain from the outstanding and settled foreign currency swaps, respectively, as at December 31, 2012. In 2013, net fair value changes from the settled foreign currency swap contracts included under "Gain (loss) on fair value changes on derivatives – net" account and "Foreign exchange – net" in the consolidated statements of income amounted to ₱14.0 million gain and ₱16.6 million gain, respectively.

Nondeliverable Forwards. In 2013, 2012 and 2011, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ with the same aggregate notional amount. The Group recognized derivative assets amounting to ₱18.5 million from the outstanding forward contracts as at December 31, 2012, respectively. Net fair value changes from the settled forward contracts of the Group amounted to ₱53.0 million and ₱87.7 million gain, in 2013 and 2012, respectively.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative instruments as at December 31 are as follows:

	2013	2012
	(In Thousands)	
Balance at beginning of year	(₱2,609,501)	(₱202,741)
Net change in fair value	1,251,514	(2,304,958)
Fair value of derivatives on settled contracts	2,996,071	(101,802)
Balance at end of year	₱1,638,084	(₱2,609,501)

In 2013, the net changes in fair value amounting to ₱1,251.5 million gain include net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱2,533.2 million, which is included under "Cumulative translation adjustment" account in the consolidated balance sheets and net mark-to-market loss on derivative instruments not designated as hedges, which is included under "Gain (loss) on fair value changes on derivatives – net" account amounting to ₱997.5 million and net mark-to-market loss included under "Foreign exchange – net" amounting to ₱284.2 million.

In 2012, the net changes in fair value amounting to negative ₱2,305.0 million comprise of interest paid amounting to ₱26.8 million, which is included under "Interest expense" account in the consolidated statements of income, net marked-to-market loss on derivatives amounting to ₱1,403.4 million, which is included under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income, ₱1,193.7 million pertaining to the valuation of the option on convertible bond, ₱219.3 million transferred to "Additional paid-in capital" account in the consolidated balance sheets and ₱99.6 million gain recognized under "Foreign exchange gain – net".

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

	2013	2012
	(In Thousands)	
Derivative assets (see Notes 11 and 17)	₱2,643,487	₱128,480
Derivative liabilities (see Note 19)	(1,005,403)	(2,737,981)
Balance at end of year	₱1,638,084	(₱2,609,501)

1. EPS Computation

	2013	2012	2011
	(In Thousands, Except for Per Share Data)		
Net Income Attributable to Common Owners of the Parent			
Net income attributable to common owners of the Parent for basic earnings (a)	₱27,445,683	₱24,674,381	₱21,224,592
Effect on net income of convertible bonds, net of tax	–	–	43,813
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	₱27,445,683	₱24,674,381	₱21,268,405
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period, after retroactive effect of stock dividends declared in 2013 (c)	787,457	776,823	769,767
Dilutive effect of convertible bonds	–	–	2,132
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	787,457	₱776,823	₱771,899
Basic EPS (a/c)	₱34.85	₱31.76	₱27.57
Diluted EPS (b/d)	₱34.85	₱31.76	₱27.55

The effect of the convertible bonds on net income and on the number of shares in 2012 and 2013 were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱36.34 and ₱33.27 in 2013 and 2012, respectively.

2. Non-cash Transactions

The Group's principal non-cash transaction under financing activites pertains to the conversion of the Parent Company's convertible bonds into common shares. Details of the conversion option of the convertible bonds and the conversions are further discussed in Note 20.

The Group's principal non-cash transaction under investing activities pertains to the acquisition of controlling interest in HPI in exchange for SM Prime common shares. Details of the corporate restructuring is further discussed in Note 5.

3. Reclassification

The comparative information in 2012 and 2011 consolidated statements of income has been reclassified to conform to the presentation of the financial statements for the period ended December 31, 2013.

4. Events After the Reporting Period

On February 17, 2014, SMIC signed an Investment and Shareholders Agreement for the acquisition of 34% ownership interest in CityMall Commercial Center, Inc. The remaining 66% of the outstanding capital is held by DoubleDragon Properties Corp.

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