COVER SHEET
for
SEC FORM 17-A

SEC Registration Number

AS094-000088

Company Name

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	831-1000	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. John Nai Peng C. Ong		**831-1000**	

Contact Person's Address

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

SECURITIES AND EXCHANGE COMMISSION

SRC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the calendar year ended **DECEMBER 31, 2014**

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

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

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

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

6. (SEC Use Only)
   Industry Classification Code:

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
CAPITAL STOCK, P 1 PAR VALUE	**28,879,137,294**

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

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

    Yes [**X**] No [ ]

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

13. Aggregate market value of the voting stock held by non-affiliates: ₱123,086,270

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

Business Development and Principal Products or Services

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

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

The subsidiaries of the Parent Company follow:

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

B. RESIDENTIAL		
SM Development Corporation and Subsidiaries (SMDC)	July 12, 1974, Philippines	100.00
Summerhills Home Development Corp.	September 13, 2007, Philippines	100.00
Costa del Hamilo, Inc. and Subsidiary (Costa)	September 26, 2006, Philippines	100.00
Highlands Prime, Inc. (HPI)	February 15, 2001, Philippines	100.00
C. COMMERCIAL		
Magenta Legacy, Inc.	November 30, 2006, Philippines	100.00
Associated Development Corporation	May 26, 1950, Philippines	100.00
SM Arena Complex Corporation (SMACC)	March 15, 2012, Philippines	100.00
Tagaytay Resort and Development Corporation (TRDC)	August 29, 1988, Philippines	100.00
Prime Metroestate Inc. and Subsidiary (PMI)	June 1, 1995, Philippines	60.00
D. HOTELS AND COVENTION CENTERS		
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)	April 2, 2008, Philippines	100.00

In 2013, SMPH initiated a corporate restructuring exercise to consolidate all of the SM Group's real estate companies and real estate assets under SMPH. The corporate restructuring was approved by the Board of Directors of SMPH on May 31, 2013 and ratified by the stockholders in a special stockholders' meeting on July 10, 2013. This was subsequently approved by the SEC on October 10, 2013.

The corporate restructuring exercise was achieved through the following transactions:

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

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

Merger of SMPH and SM Land

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

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

On October 10, 2013, the SEC also approved SMPH's acquisition of SMIC's unlisted real estate companies, including SMHCC, SMACC, Costa, PMI and TRDC (collectively, the "Unlisted Real Estate Companies"). The SEC likewise approved SMPH's acquisition of real property assets of SMIC (the "SMIC Real Estate Assets") by issuing new SMPH shares to SMIC. The total acquisition price of the Unlisted Real Estate Companies and SMIC Real Estate Assets amounted to ₱25.8 billion, equivalent to 1,382,841,458 SMPH common shares issued based on the 30-day volume weighted average price of SMPH's shares of ₱18.66.

The Company has four business units (or segments), namely, malls, residential, commercial and hotels and convention centers. The contribution of each of the business units as of and for the year ended 2014 are as follows:

	Malls	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱38,642,759	₱22,722,516	₱2,866,974	₱2,007,821	₱–	₱66,240,070
Inter-segment	57,767	916	71,996	3,229	(133,908)	–
	₱38,700,526	₱22,723,432	₱2,938,970	₱2,011,050	(₱133,908)	₱66,240,070
Segment results:						
Income before income tax	₱17,531,570	₱4,995,925	₱1,068,261	₱317,974	(₱239,594)	₱23,674,136
Provision for income tax	(4,193,180)	(246,225)	(273,729)	(64,513)	–	(4,777,647)
Net income	₱13,338,390	₱4,749,700	₱794,532	₱253,461	(₱239,594)	₱18,896,489
Net income attributable to:						
Equity holders of the Parent	₱12,864,812	₱4,749,700	₱794,532	₱253,461	(₱272,153)	₱18,390,352
Non-controlling interests	473,578	–	–	–	32,559	506,137
Segment assets	₱244,909,574	₱106,187,067	₱28,617,113	₱9,391,400	(₱264,995)	₱388,840,159
Segment liabilities	₱126,202,387	₱55,362,092	₱3,025,684	₱2,276,788	(₱264,995)	₱186,601,956
Other information:						
Capital expenditures	₱32,393,612	₱22,546,987	₱2,822,857	₱1,274,294	₱–	₱59,037,750
Depreciation and amortization	5,362,023	304,316	601,894	311,548	–	6,579,781

Further details relating to business segment data are disclosed in Note 5 of the attached consolidated financial statements.

As of December 31, 2014, the Company had a market capitalization of ₱492.10 billion.

For the year 2015, the Company expects to incur around ₱70 billion for its capital expenditures in the Philippines and in China.

Risks

SM Prime follows an 8-step Risk Management Approach, which starts from the identification and prioritization of risks, to the assessment of risk interrelationship and analysis of the sources of risks, then to the development of risk management strategies and action plans, and ultimately, to the monitoring and continuous improvement of the risk management process.

The Executive Committee provides oversight on the assessment of the impact of risks on the strategic and long-term goals of the Company. The business unit heads are responsible for managing operational risks by implementing internal controls within their respective units. On a quarterly basis, the Audit and Risk Management Committee.is updated on status of risk management and improvement plans of the Company.

In 2013, SM Group's property companies and real estate assets were consolidated under SM Prime. Following this consolidation, the ERM scope was expanded in 2014 to include residences, offices, hotels and convention centers, and resorts/events destinations. Risk assessment was conducted to identify key operational risks affecting SM Prime and its subsidiaries.

SM Prime prioritizes safety and security in its properties. The company implements a robust safety and security system in its malls, which is audited annually by third parties. This gives the Company assurance that risks and impact related thereto are minimized, and necessary improvements in the system are identified and addressed. As an asset-based company, SM Prime also invests in the disaster resiliency of its company assets, as a means to reduce the impact of property damage and business disruption caused by natural catastrophes. The Company also has a property insurance program and an on-going Business Continuity Management System Project that will align its business continuity practices with international standards. In addition, SM Prime implements systems vulnerability assessment to proactively detect and address information security threats and vulnerabilities.

The Company is currently undertaking an enterprise-wide alignment of key business processes and internal controls. The consolidation provided an opportunity for sharing best practices across different business units to improve processes and controls effectiveness and efficiency.

The Company's governance, risk management, and control systems are subject to the independent, objective, reasonable, systematic and disciplined evaluation by its Internal Audit function. To maintain its independence, Internal Audit reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. As such, the appointment and removal of the Internal Auditor requires the approval of the Audit and Risk Management Committee, as provided in the committee's Charter.

The Company also engages the services of an external auditor to perform an independent audit and provide an objective assurance on the fairness and presentation of the Company's financial statements. As required by the Revised 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. Considering this and other relevant matters, the Audit and Risk Management Committee has the responsibility to make a well-informed recommendation regarding the appointment, re-appointment or removal of the external auditor.

Competition

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

Suppliers

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

Customers/Clients

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

Trademarks

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

Transactions With and/or Dependence on Related Parties

As of December 31, 2014, the Company is 49.16% and 24.74% directly-owned by SMIC and the Sy Family, respectively.

Further details relating to transactions with related parties are disclosed in Note 22 of the attached consolidated financial statements.

Governmental regulations and environmental laws

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

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

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

Employees

As of December 31, 2014, SM Prime has 1,716 regular employees and the Parent Company had 303 direct employees. Headcount approximately increases by an average rate of 8% annually. The employees are not subject to a collective bargaining agreement.

SM Prime's malls business unit is supported by 6,545 officers and employees of the management companies. The management companies manage and operate the malls, including the provision of manpower, maintenance and engineering and security and promotional activities.

ITEM 2. Properties

A. MALLS

SM Prime operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. As of December 31, 2014, the malls business unit has fifty malls in the Philippines with 6.5 million square meters (sq. m.) of gross floor area (GFA) and five shopping malls in China with 0.8 million sq. m. of GFA.

In 2014, SM Prime opened two malls and an expansion in the Philippines, namely, SM City Cauayan in Isabela, Cagayan Valley, SM Center Angono in Rizal and Mega Fashion Hall in SM Megamall. The new malls and expansion added 213,000 sq. m. to SM Prime's total GFA.

Metro Manila Malls

SM Megamall
Year opened – 1991. SM Megamall is currently the country's largest shopping mall in the Philippines located on a 10.5 hectare property in the Ortigas business district of Metro Manila. It stands along the main EDSA thoroughfare and is near the Metro Rail Transit. SM Megamall has two main buildings, Mega A and Mega B, with the addition of Mega Atrium in 2008, Building C in 2011 and Mega Fashion Hall in January 2014. It has a total GFA of 488,767 sq. m. It features 14 cinemas including the newly opened IMAX theatre and Director's Club with its own butler service, a fully-computerized 14-lane

bowling center, an Olympic-sized ice skating rink, a mega fashion hall, event center and parking for more than 3,000 vehicles. The anchor tenants for SM Megamall are The SM Store, SM Supermarket, Forever 21 and Toy Kingdom.

SM City North EDSA
Year opened – 1985. SM City North EDSA has a GFA of 482,959 sq. m. featuring 12 cinemas including a 3D IMAX theater with a total seating capacity of 9,346, 24-computerized synthetic lane bowling center, food court, amusement centers and multi-level carpark which provides a total capacity of 3,846 vehicles, located on a 16.1 hectare site in Diliman, Quezon City. Following the opening of The Block and renovation of The Annex, The Sky Garden was unveiled in May 2009. It is a 400-meter elevated walkway shaded by a long sketch of white canopy connecting building to another, with a park-like ambiance and green architecture. The Sky Garden includes the roof garden, water features, food and retail outlets and sky dome, a 1,000-seat amphitheater for shows and special events. The anchor tenants for SM City North EDSA are The SM Store, SM Hypermarket and SM Supermarket, Forever 21 and Uniqlo.

SM Mall of Asia
Year opened – 2006. SM Mall of Asia is located on a 19.5 hectare property overlooking Manila Bay. The mall consists of four buildings linked by elevated walkways—Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The mall has a GFA of 406,961 sq. m. with parking buildings that has 3,984 spaces each that are available for vehicles. The Entertainment Building houses the country's first IMAX theatre, a special Director's Club screening room for exclusive film showings, eight state-of-the art cinemas, 32-lane bowling facility, an Olympic-sized ice skating rink, an Exploreum and fine dining restaurants and bars. In 2014, the mall opened the XD 4D cinema that is equipped with 48 pneumatic controlled seats and in-theatre effects including snow, wind, water, smell, fog and strobe lightings, leg tickler, motion seats and seat vibrators. The anchor tenants for SM Mall of Asia are The SM Store, SM Hypermarket, Forever 21 and Uniqlo.

SM Aura Premier
Year opened – 2013. SM Aura Premier, opened in May 2013, is a state of the art civic center at the heart of Taguig City. The mall has a GFA of 249,862 sq. m. As an integrated development, SM Aura Premier incorporates office towers, a chapel, a convention center and mini-coliseum, supported by a retail podium with an upscale look and feel. The mall also has two regular cinemas, two Director's Clubs and an IMAX Theater. The anchor tenants for SM Aura Premier are The SM Store, SM Supermarket, Forever 21 and Uniqlo.

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

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

SM City San Lazaro
Year opened – 2005. SM City San Lazaro is located at the center of a densely populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-storey mall has a GFA of

181,593 sq. m. The mall features a food court, amusement center, six cinemas with a seating capacity of 3,274, and parking for 1,256 vehicles. The anchor tenants for SM City San Lazaro are The SM Store, SM Supermarket and SM Appliance Center.

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

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

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

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

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

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

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

and accessory picks. The anchor tenants for SM Center Valenzuela are SM Supermarket, SM Appliance Center and Ace Hardware.

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

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

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

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

Malls Outside of Metro Manila

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

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

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

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

SM City Bacolod
Year opened – 2007. SM City Bacolod is a two-building mall located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It has a total land area of 17.0 hectare and has a GFA of 133,751 sq. m. In late 2014, an additional 61,999 sq. m. of GFA was added due to the expansion of the north wing of the main mall. The mall features a food court, amusement centers and four cinemas with 2,001 seating capacity. The anchor tenants for SM City Bacolod are The SM Store, SM Supermarket and Ace Hardware.

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

SM City Davao
Year opened – 2001. SM City Davao is located on a 13.2 hectare property along Quimpo Boulevard corner Tulip and Eco Drives, Brgy. Matina, Davao City. Its location is walking distance from some of the largest schools in Mindanao such as Ateneo de Davao, University of Mindanao, Philippine Women’s College and the Agro-Industrial Foundation College. The mall has a GFA of 128,145 sq. m. It has six cinemas which can accommodate 2,374 movie patrons. The anchor tenants for SM City Davao are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

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

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

SM City Lipa
Year opened – 2006. SM City Lipa is a two-level mall strategically located along Lipa’s Ayala Highway. It occupies 10.3 hectares of land, with 111,698 sq. m. of GFA. In late 2014, an additional 34,437 sq. m. of GFA was added due to the expansion of the main mall. Lipa City features natural attractions and is a commercial, educational and industrial destination. The mall features a food court and four cinemas with 2,482 seating capacity. The anchor tenants for SM City Lipa are The SM Store, SM Supermarket and Ace Hardware.

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

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

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

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

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

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

SM City Baliwag
Year opened – 2008. SM City Baliwag is located in Brgy. Pagala, Baliwag, Bulacan, approximately 40 kilometers from the EDSA—Balintawak interchange of the North Luzon Expressway. It has a GFA of 91,241 sq. m. In late 2014, an additional 29,979 sq. m. of GFA was added due to the expansion of the main mall. Among the facilities included are four cinemas with a combined seating capacity of 1,241, a food court and parking for over 1000 vehicles. The anchor tenants for SM City Baliwag are The SM Store, SM Hypermarket and Ace Hardware.

SM City Masinag
Year opened – 2011. SM City Masinag is a three-floor mall located along Brgy. Mayamot, Marcos Highway, Antipolo City. It has a GFA of 90,261 sq. m. SM City Masinag's amenities include a food

court, four cinemas with a combined seating capacity of 1,148, and parking for more than 450 vehicles. The anchor tenants for SM City Masinag are The SM Store, SM Supermarket and Ace Hardware.

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

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

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

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

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

SM City Cauayan
Year opened – 2014. SM City Cauayan, the first mall in Region 2 known as Cagayan Valley, has a GFA of 70,614 sq. m. and is located along National Highway, District II, Cauayan City, Isabela. The mall serves customers from the country's second largest province Isabela as well as the nearby provinces of Cagayan, Nueva Vizcaya, and Quirino. SM City Cauayan includes a variety of retail establishments, six cinemas with a total seating capacity of 1,122. The anchor tenants for SM City Cauayan are The SM Store, SM Supermarket and SM Appliance Center.

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

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

SM City Rosario
Year opened – 2009. SM City Rosario is located in Brgy. Tejero in Rosario. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of Cavite and neighboring provinces as well. It has a GFA of 59,326 sq. m. and features a food court and four cinemas with a capacity of 1,560 seats. The anchor tenants for SM Rosario are The SM Store, SM Supermarket and Ace Hardware.

SM City San Pablo
Year opened – 2010. SM City San Pablo has a GFA of 56,609 sq. m. It is located along Maharlika Highway in Brgy. San Rafael, San Pablo City in the province of Laguna. The mall features a business center, a food court and four cinemas with seating capacity of 1,302. It also has an atrium for various events. The anchor tenants for SM City San Pablo are The SM Store, SM Supermarket and Ace Hardware.

SM Center Molino
Year opened – 2005. SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a GFA of 52,061 sq. m. SM Center Molino is the first to have the Service Lane, which comprises of different shops that offer a wide array of services situated outside the mall across the covered parking. The mall features four cinemas with 1,433 seating capacity and parking for 1194 vehicles. The mall's anchor tenants are the SM Hypermarket, SM Appliance Center and Ace Hardware.

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

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

SM Center Angono
Year opened – 2014. SM Center Angono, located along Manila East Road and Quezon Avenue in Barangay San Isidro, Angono, Rizal, is marked as the fiftieth SM Supermall in the Philippines. It has a GFA of 41,481 sq. m. with parking slots for over 200 vehicles. It serves customers in Angono and Binangonan as well as other towns in the province of Rizal such as Cardona, Teresa, Morong, Baras, Tanay, and Pililla. The anchor tenants for SM Center Angono are SM Savemore, Banco de Oro and Ace Hardware.

China Malls

SM City Xiamen
Year opened – 2001 (SM City Xiamen) & 2009 (SM Xiamen Lifestyle). SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4 hectare lot and has a GFA of 238,125 sq. m. plus an open carpark for 2,373 vehicle. The anchor tenants for SM City Xiamen are Wal-Mart, The SM Store, Watsons, H&M and Uniqlo plus several junior anchors.

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

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

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

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

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

There are no mortgage, lien or encumbrance over any of the Company's properties or limitations on ownership or usage over the same, except as disclosed in Note 20 of the attached consolidated financial statements.

Sky Ranch

Sky Ranch Tagaytay
Sky Ranch Tagaytay, a nearly four-hectare property, is an entertainment venue adjacent to the Taal Vista Hotel, and was developed to complement the hotel's strong presence as a well-known destination in the area. To maximize the site's premium views and distinctive natural environment, a social events venue is included which is complemented by casual, family style dining establishments, as well as a mini-amusement theme park for kids and other recreational facilities such as horseback riding.

Sky Ranch Pampanga
Sky Ranch Pampanga is the first amusement park and the newest destination for both local residents and tourists in the North Luzon. The park is embedded in a 10,000 square meter land of SM City Pampanga in the City of San Fernando. It has 23 different rides, including the Pampanga Eye which is said to be the tallest and biggest Ferris wheel in the Philippines at 65 meters tall and 50 meters in diameter.

Malls under Construction

For 2015, the Company's malls business unit is set to open five new malls, located in SRP Cebu, Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as the expansion of SM City Iloilo and SM City Lipa. By yearend, the malls business unit will have an estimated 8.2 million sq. m. of GFA.

Land bank for Malls Development

The following table sets forth SMPH's existing land bank owned for development of new malls as of December 31, 2014:

Location	Area (sq.m.)
Luzon	1,313,676
Visayas/ Mindanao	386,746
Metro Manila	65,193
Total	**1,765,615**

The Company retains ownership of all the sites on which the SM Prime malls are built, with the exception of SM City Bacoor, SM City Manila, SM Center Valenzuela, SM Center Molino, SM Center Pasig, SM City Clark, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion, SM City General Santos, SM Aura Premier, SM City Xiamen, SM City Jinjiang, SM City Chengdu, SM City Suzhou, and SM City Chongqing which are held under long term leases. SM China malls have 40-60 years land use rights. In addition, the land where SM City Baguio is constructed is owned by SMIC, and the land where SM City San Lazaro is constructed is owned by San Lazaro Holdings Corporation, a 100%-owned subsidiary. Lease renewal options are subject to mutual agreement of the parties. SM Megamall is owned by FARDC, a 74% owned subsidiary and SM by the Bay is owned by FLVGI, a 50% owned subsidiary.

Joint Venture with WalterMart

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

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

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

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

B. RESIDENTIAL (PRIMARY)

SM Prime's revenue from residential operations is derived largely from the sale of condominium units. As of December 31, 2014, residential business unit has twenty five residential projects in the market, twenty three of which are in Metro Manila and two in Tagaytay.

Completed Residential Projects

Chateau Elysee
Chateau Elysee is a six-cluster, six-storey residential condominium project in a 4.7 hectare lot in Parañaque City, Metro Manila. This project offers one-bedroom and two-bedroom units. Cluster one, comprising 384 units, was launched in the third quarter of 2003 and completed in December 2004. Construction of cluster two with 384 units was completed in May 2006. Construction of cluster three with 400 units was completed in May 2007. Construction of cluster six with 504 units was completed in December 2008. Construction of cluster five with 560 units was completed in November 2009. Construction of cluster four with 588 units was completed in June 2011.

Mezza Residences
SM Prime's first high-rise project is the Mezza Residences ("Mezza"), which is a mixed-use development project with 38-storey four-tower condominiums and commercial retail area located across from SM City Sta. Mesa, Manila. Each tower has 400 to 800 residential units comprised of one-bedroom to four-bedroom configurations, with floor areas ranging from 21 to 67 sq. m. Mezza consists of 2,332 saleable residential units and 18 commercial units for lease with SaveMore store as the anchor tenant. Construction of Mezza towers one to four was 100% complete.

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

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

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

Sun Residences
Sun Residences is a project comprising two 40-storey towers located along España Blvd., Quezon City near Welcome Rotonda. Sun Residences Tower 1 comprises 2,057 units. Tower 2 comprises 1,982 units. Construction of Tower 1 and 2 were completed in November 2013 and June 2014, respectively.

Blue Residences
Blue Residences is a 40-storey residential condominium situated across from Ateneo De Manila University in Quezon City. Construction of Blue Residences started in October 2010. It comprises 1,591 units and was completed in May 2014.

Grass Residences – Phase 1

Grass Residences – Phase 1 was launched in March 2008, a three tower 40-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 1 of Grass Residences comprises 1,988 units, which were completed in October 2011. Tower 2 comprises 2,025 units and was completed in May 2014. Tower 3 comprises 1,990 units and was completed in December 2013.

Ongoing Residential Projects

Grass Residences – Phase 2

Grass Residences – Phase 2 was launched in March 2013, a two tower 43-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 4 comprises 1,957 units and is expected to be completed in 2017.

Field Residences

Field Residences is a residential condominium project that will ultimately consist of ten buildings located behind SM Sucat, Parañaque. Buildings 1, 2, 3, 7 and 8 of Field Residences comprise 1,974 units. Construction of buildings 1, 2, 8, 3 and 7 were completed in April 2010, April 2011, December 2011, December 2012 and September 2013, respectively. Building 4 comprises of 602 units and is expected to be completed in 2016.

Jazz Residences

Jazz Residences is a mixed use development project comprising four 41-storey towers located at N. Garcia corner Jupiter, Makati City. Towers A, B, C and D of the project with 5,367 units. Construction of Tower A started in April 2010 and was completed in December 2013 while construction of Tower C started in October 2010 and was completed in May 2014. Towers B and D are expected to be completed in 2015.

Light Residences

Light Residences is a mixed use development project with three 40-storey towers located along EDSA, Mandaluyong City. It has a total of 4,227 units. Construction of Phase 1, which consists of the podium and Tower 1, started in March 2010 and was completed in December 2013. Construction of Phase 2 (Tower 3) started in March 2012 and was completed in December 2013. Construction of Phase 3 (Tower 2) commenced in March 2010 and is expected to be completed in 2015.

Wind Residences

Wind Residences is a residential condominium development with 5 20-storey towers located along Emilio Aguinaldo Highway, Tagaytay City. Towers 1 to 5 have a total of 3,524 units. Towers 1 and 2 were completed in August 2013. Tower 3 was completed in December 2013. Construction of Tower 4 began in April 2013 and is expected to be completed in 2015. Construction of Tower 5 started in October 2013 and is expected to be completed in 2016.

Cool Suites @ Wind Residences

Cool Suites @ Wind Residences is a residential condominium project that will consist of 6 Towers located along Emilio Aguinaldo Highway, Tagaytay City. Cool Suites @ Wind Residences is a Phase 2 Project at the 15-hectare development of Wind Residences. Building 1 was launched in December 2014 with a total of 363 units. Construction of Building 1 will commence in 1st quarter of 2015 and expected to be completed in 2016.

M Place @ South Triangle

M Place @ South Triangle is a four 25-storey tower condominium in South Triangle, Quezon City. Tower A started construction on January 2011 and was completed in December 2013. Tower A comprises 827 units. Tower B started construction in July 2011 and was completed in December 2013. Tower B comprises 912 units. Tower C comprises 778 units; construction of Tower C began in January 2012 and is expected to be completed in 2015. Tower D comprises of 920 units. Construction of Tower D commenced in December 2011 and is expected to be completed in 2015.

Mezza II Residences
Mezza II Residences is a 38-storey residential condominium located just beside the first Mezza Residences in Quezon City. Construction of Mezza II started in December 2010. It comprises 1,324 units and is expected to be completed in 2015.

Shine Residences
Shine Residences is a 22-storey residential condominium located in Pasig City. Construction of Shine Residences commenced in January 2013 and is expected to be completed in 2015. It comprises 892 units.

Green Residences
Green Residences is a 50-storey residential condominium situated on Taft Avenue, Manila near De La Salle University. Construction of Green Residences started in August 2011 and is expected to be completed in 2015. Green Residences comprises 3,378 units.

Shell Residences
Shell Residences is a 16-storey residential and commercial condominium project and is located at the MOA Complex in Pasay City. It comprises four buildings with 3,093 residential units. Construction of Shell Residences commenced in May 2012 and is expected to be completed in 2015.

Breeze Residences
Breeze Residences is a 38-storey residential and commercial condominium project and is located along Roxas Boulevard in Pasay City. Breeze Residences comprises 2,133 units. Construction of Breeze Residences commenced in June 2013 and is expected to be completed in 2016.

Grace Residences
Grace Residences is a residential condominium development with four towers located along Levi Mariano Avenue in Taguig City. Towers 1, 2 and 3 have a total of 2,452 units. Construction of Tower 1 started in May 2013 and is expected to be completed in 2015. Construction of Tower 2 and 3 commenced in October 2013 and May 2014, respectively and are expected to be completed in 2016.

Trees Residences
Trees Residences is a residential condominium development with nineteen 7-storey towers located near Quezon City. Buildings 1, 2,3,5,6 and 7 ("Phase 1 Buildings") have a total of 2,093 units. Construction of the Phase 1 Buildings commenced in June 2014 and expected to be completed in 2016.

Shore Residences
Shore Residences is a residential condominium development with four towers located at the MOA Complex in Pasay City. Shore Residences comprises 5,691 units. Construction of Shore Residences commenced on the second quarter of 2014 and is expected to be completed in 2018.

Air Residences
Air Residences is a residential condominium situated across Ayala Avenue Extension corner Yakal and Malugay Street, Barangay San Antonio, Makati City. Construction of Air Residences will commence in second quarter of 2015 and is expected to be completed in 2020. Air Residences comprises of 3,642 units.

Fame Residences
Fame Residences is a residential condominium project that will ultimately consist of four Towers located along EDSA and Mayflower Street, Barangay Highway Hills, Mandaluyong City. Tower 1 of Fame Residences comprises 1,210 units. Construction of Tower 1 will commence in second quarter of 2015 and expected to be completed in 2019.

RESIDENTIAL (SECONDARY)

SM Prime owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas.

In addition, SM Prime is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline.

Residential Developments in Tagaytay

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

The Hillside at Tagaytay Highlands
Site development for lots began in the fourth quarter of 2007 and was completed in December 2009.

The Woodlands Point at Tagaytay Highlands
The Company has completed site development and construction of 24 log houses.

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

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

Woodridge Place Phase 2
This is a condominium project at Tagaytay Highlands that was introduced to the market in May 2010. This project consists of two mid-rise buildings with 177 condominium residential units with areas ranging from 85 to 212 sq. m. per unit.

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

Aspen Hills
This is a leisure lot development located at Tagaytay Highlands that was launched in summer of 2012. This development is situated on 27 hectare property which offers lot sizes from 320 to 800 sq. m. The surrounding village is expected to include the Meadows Community Clubhouse, the Little Ranch playground, the Sunshine Picnic Grove and Spinner's Trail..

Residential Developments in Pico de Loro

Jacana
Jacana is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It is comprised of two buildings, building A with six floors and building B with seven floors. Of the total

246 residential units. Construction of Jacana commenced in August 2007 and was completed in December 2009.

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

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

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

Pico de Loro Beach and Country Club

Pico de Loro Beach and Country Club is a leisure facility located at Pico de Loro Cove. The beach club was completed and opened in 2009, while the country club was completed in June 2010.

Land Bank for Residential (Primary) Development

In 2015, the residential business unit will launch projects located in Quezon City, Taguig City, Tagaytay City, Parañaque City, Mandaluyong City, Las Piñas City, Makati City and the MOA Complex.

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

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

The table below sets forth the locations of SM Prime's residential undeveloped land inventory as of December 31, 2014:

Location	Area (in sq. m.)
Metro Manila	540,035
Outside Metro Manila	1,204,714
Total	**1,744,749**

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

Land Bank for Residential (Secondary) Development

SM Prime owns 542 hectares of land located around the vicinity of Tagaytay Highlands International Golf Club in Tagaytay City, Cavite and Tagaytay Midlands Golf Club in Batangas.

The table below sets forth the location and area of SM Prime's land bank as of December 31, 2014:

Location	Area (in sq. m.)
Batangas	4,332,552
Laguna	869,036
Tagaytay	399,456
Total	**5,601,044**

C. COMMERCIAL

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

Completed Commercial Properties

Mall of Asia (MOA) Complex
SM Prime's flagship project is the MOA Complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor development and main attraction, among other commercial, business, and entertainment establishments within the Complex. A major attraction in the Complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building, MOA Arena Annex Building, that houses additional parking spaces and office levels. The MOA complex is also the site of SM Prime's signature business complex, the E-Com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO and shipping companies.

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

SM Makati Cyber One
SM Makati Cyber One is a 4-storey office building located along Gil Puyat Avenue with GFA of approximately 22,100 sq. m. Current tenants of the building include Perimeter E Security, ABM Global Solutions, Inc., K Force Global Solutions Inc. and Startek International Ltd.

SM Makati Cyber Two
SM Makati Cyber Two is a 4-storey office building with GFA of approximately 16,700 sq. m. The development is along corners of Sen. Gil J. Puyat Avenue (Buendia)/Jupiter/Zodiac Streets, Makati City. The major tenant of the building is VXI Global Holdings B.V. (Philippines). SM Prime also owns the land SM Makati Cyber Two is built upon.

SM Cyber West
A new stand-alone office building development in the SM Cyber series, SM Cyber West is a 15-level office building development located on a highly visible and prime owned property at the corner of

EDSA and West Avenue. The building was completed in October 2014 with GFA of more than 42,000 sq. m. Additionally, it is linked via bridgeways to the SM City North EDSA mall as well as nearby MRT stations. Major tenants of the building include Emerson Electric Asia Ltd. ROHQ and Concentrix Daksh Services Phils. Corp. The remaining leasable area in the ground and second levels features a SaveMore supermarket and other support retail and commercial establishments.

Makati Avenue Commercial Building
The building is a 2-storey commercial center located in Makati Avenue corner Anza St., Makati City with a GFA of 1,581 sq. m. The development was completed in the third quarter of 2014. Tenants of the building include Bingo Boutique, Kenny Rogers and Burger King.

Future Commercial Developments

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

Three E-Com Center (renamed from Four to Three E-Com Center)
Three E-Com Center will be a 15-storey office building with a three level podium and basement parking and the ground level designed to cater the commercial and retail tenants. Similar to Two E-Com Center and Five E-Com Center, Three E-Com Center will feature architectural designs of Miami-based firm Arquitectonica. The GFA is expected to be approximately 110,000 sq. m. Ground breaking of the project transpired last September 2014 and by the end of the year 2014, pile driving was already 100% complete. Three E-Com Center project is expected to be completed by 2017.

Others

Department Stores and Supermarkets
SM Prime also owns several department store and supermarket buildings with a total GFA of approximately 294,000 sq. m. The major tenant of these buildings is the SM Retail Group. The following table sets forth certain information regarding SM Prime's department store and supermarket buildings as of December 31, 2014:

Department stores *(The SM Store)*	**Location**	**GFA (sq. m.)**	**Occupancy (%)**
SM Cubao	Quezon City	109,253	98.00
SM Makati	Makati City	109,667	100.00
SM Iloilo	Iloilo City	26,390	97.00

Supermarkets *(Hypermarket and Savemore)*	**Location**	**GFA (sq. m.)**	**Occupancy (%)**
Adriatico	Manila City	15,823	100.00
Caloocan	Caloocan City	14,479	100.00
Novaliches	Quezon City	5,123	100.00
Del Monte	Quezon City	2,884	100.00
Jaro Iloilo	Iloilo City	3,759	100.00
Kamias	Quezon City	2,277	100.00
P. Tuazon	Quezon City	2,082	100.00
Pedro Gil	Manila City	1,830	100.00
Tandang Sora	Quezon City	1,358	100.00

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

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

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

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

Jetty Terminal
Also in MOA Complex is the jetty terminal that was built in compliance to the sea-based mass transit of the MOA Complex master plan. SM Prime completed the development of breakwater and terminal building in 2014 to further improve the jetty terminal facilities.

SM Arena
The SM Arena is a five-storey, first class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events. The arena has a seating capacity of approximately 16,000 for sporting events, and a full-house capacity of 20,000. It occupies approximately two hectares of land and has a GFA of approximately 68,000 sq. m.

Mall of Asia Arena Annex Building
MOA Arena Annex Building is an 11-storey with total GFA of 95,273 sq. m. It is designed to serve the parking needs of MOA Arena with 1,469 parking slots from ground to 7th floor. The 8th to 11th floor, with approximately 30,000 sq. m., are leased out as office space. The current tenants are SM Affiliates and Teleperformance, a BPO company.

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

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

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

Other Commercial Properties
SM Prime acts as a landlord for the following commercial properties leased by SM Food Retail Group:

Lot Location	Area (sq. m.)
Imelda Ave., Cainta, Rizal & Int. Imelda Ave., Rosario, Pasig City	41,000
East Service Road, Sucat, Muntinlupa City	40,000
Anabu I-B Imus, Cavite	37,000
II-A;II-B & Lot 1;Along H. Cortes Ext., Subangdaku, Mandaue City	36,000
Km. 7 McArthur Highway, Bangkal, Davao City	34,000
Quirino Highway, Talipapa, Balintawak, Quezon City	30,000
Manila Harbor Center, Tondo, Manila City	26,000
Rosario, Batangas	7,189

Land Bank for Commercial Development
The table below sets forth the locations of land inventory as of December 31, 2014:

Location	Area (sq. m.)
Luzon	267,976
Metro Manila	199,229
Visayas	11,858
Total	**479,063**

D. HOTELS AND CONVENTION CENTERS

As of December 31, 2014, the hotels and convention centers business unit is composed of four hotels with 1,013 saleable rooms and four convention centers and two trade halls with 35,640 sq. m. of leasable space.

Hotels

Completed Hotel Projects

Taal Vista Hotel
Taal Vista Lodge, located in Tagaytay City, was acquired by the SM Group in July 1988. The Hotel re-opened in 2003 under the new name Taal Vista Hotel with the renovated Mountain Wing (128 rooms), Lobby Lounge, and Restaurant. The Lake Wing was constructed in 2008 with 133 rooms and 1,000-seater ballroom. In 2009, the hotel became fully operational with total inventory of 261 rooms.

Radisson Blu Cebu
SM Prime inaugurated the 400 room five-star Radisson Blu Hotel in November 2010, strategically located beside SM City Cebu adjacent to the International Port Area. Radisson Blu is the first hotel managed by the Carlson Rezidor Hotel Group in the Asia Pacific Region to be classified under its “Blu” upscale hotel brand category.

The property has been classified as a deluxe hotel category by the Department of Tourism. Its facilities include an in-house spa, fitness center, business center, 800-sq. m. swimming pool, club lounge, two ballrooms and a number of smaller meeting rooms.

Pico Sands Hotel
Formally opened in August 2011, Pico Sands Hotel is a 154 room tropical contemporary hotel located within Pico de Loro Cove, the maiden residential community of Hamilo Coast, the premier seaside development of the SM Group in Nasugbu, Batangas. The spacious rooms are equipped with modern facilities and captivating views of lush mountains and tranquil lagoon.

Park Inn by Radisson Davao
Park Inn by Radisson Davao is strategically located across the SM Lanang Premier Mall and SMX Conventions Center. The 204-room hotel was formally opened on March 22, 2013. Guests are greeted with contemporary interiors and smart design elements complementing the hotel's service philosophy – Adding Color to Life. Facilities include: Restaurant, Bar and Grill (RBG), 4 meeting rooms, fitness center, swimming pool and bar. Park Inn Davao is the first "next generation" mid-scale Park Inn by Radisson brand to be established in the Asia Pacific region.

Ongoing Hotel Projects

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

Convention Centers and Trade Halls

The Company has four SMX convention centers and two trade halls. SMX convention centers are located in the MOA Complex, SM Lanang Premier, SM Aura Premier and SM City Bacolod. Trade halls are located in SM Megamall and SM City Cebu. The structure of a convention center is made up of large exhibit floors which can be divided into multiple exhibition and function halls. With its state of the art convention and exhibition facilities, it continues to host major international and local conventions and exhibitions.

ITEM 3. Legal Proceedings

Please refer to Note 31 of the attached 2014 consolidated financial statements.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

CASH DIVIDEND PER SHARE - ₱ 0.19 in 2014, ₱ 0.27 in 2013 and ₱ 0.29 in 2012.

	2014		2013	
Stock Prices	High	Low	High	Low
First Quarter	₱ 15.52	₱ 14.10	₱ 20.80	₱ 16.10
Second Quarter	17.20	14.56	21.90	14.30
Third Quarter	18.38	15.08	19.00	14.64
Fourth Quarter	18.00	15.72	19.62	14.40

The Company's shares of stock are traded in the Philippine Stock Exchange. As of December 31, 2014, the total number of shares owned by the public is 7,223,372,680 or 25.01% of the outstanding shares of the Company.

As of February 27, 2015, the closing price of the Company's shares of stock is ₱19.76/share. For the two months ended February 27, 2015, stock prices of SMPH were at a high of ₱20.40 and a low of ₱16.70.

The number of shareholders of record as of February 27, 2015 was 2,509. Capital stock issued and outstanding as of February 27, 2015 was 28,879,137,294.

The Company targets a dividend payout of 30 to 35 percent of the previous year's net income. As of December 31, 2014, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 21 of the consolidated financial statements.

The top 20 stockholders as of February 27, 2015 are as follows:

	Name	No. of Shares Held	% to Total
1.	SM Investments Corporation	14,197,128,988	49.16
2.	PCD Nominee Corp. (Non-Filipino)	5,111,544,127	17.70
3.	PCD Nominee Corp. (Filipino)	2,141,204,727	7.41
4.	Hans T. Sy	685,163,512	2.37
5.	Henry Sy, Jr.	680,818,440	2.36
6.	Teresita T. Sy	666,708,532	2.31
7.	Herbert T. Sy	666,389,522	2.31
8.	Harley T. Sy	661,643,367	2.29
9.	Elizabeth T. Sy	654,115,892	2.27
10.	Henry Sy, Sr.	653,395,579	2.26
11.	Felicidad Sy	648,515,413	2.25
12.	Syntrix Holdings, Inc.	317,827,670	1.10
13.	Sysmart Corporation	317,775,948	1.10
14.	Mountain Bliss Resort and Development Corp.	156,335,965	0.54
15.	Belle Corporation	108,615,313	0.38
16.	Sybase Equity Investments Corp.	52,365,500	0.18
17.	Cutad, Inc.	19,694,544	0.07
18.	HSBB, Inc.	19,694,400	0.07
19.	Lucky Securities, Inc.	3,000,000	0.01
20.	Vicente O. Yu or Estrella R. Yu	2,890,157	0.01

As discussed in Note 20 of the consolidated financial statements, the Company registered with the Securities and Exchange Commission the ₱20 billion retail bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036 million with a fixed interest rate equivalent to 5.1000% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362 million with a fixed interest rate equivalent to 5.2006% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602 million with a fixed interest rate equivalent to 5.7417% per annum due on September 1, 2024.

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

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

2014

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

	Twelve months ended Dec 31				
	2014	% to Revenues	2013	% to Revenues	% Change
Profit & Loss Data					
Revenues	66,240	100%	59,794	100%	11%
Costs and expenses	38,554	58%	35,659	60%	8%
Operating Income	27,687	42%	24,136	40%	15%
Net Income	18,390	28%	16,275	27%	13%
EBITDA	33,847	51%	29,927	50%	13%

	Dec 31 2014	% to Total Assets	Dec 31 2013	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	388,840	100%	335,584	100%	16%
Investment Properties	202,181	52%	171,666	51%	18%
Total Debt	129,283	33%	106,313	32%	22%
Net Debt	93,070	24%	77,132	23%	21%
Total Stockholders' Equity	199,088	51%	163,267	49%	22%

	Dec 31	
Financial Ratios	2014	2013
Debt to Equity	0.39 : 0.61	0.39 : 0.61
Net Debt to Equity	0.32 : 0.68	0.32 : 0.68
Return on Equity	0.10	0.10
Debt to EBITDA	3.82	3.55
Interest Coverage Ratio	8.26	8.12
Operating Income to Revenues	0.42	0.40
EBITDA Margin	0.51	0.50
Net Income to Revenues	0.28	0.27

Revenue

SM Prime recorded consolidated revenues of ₱66.24 billion in the year ended 2014, an increase of 11% from ₱59.79 billion in the year ended 2013, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱36.50 billion in 2014, an increase of 13% from ₱32.20 billion in 2013. The increase in rental revenue was primarily due to the new malls and expansions opened in 2013 and 2014, namely, SM Aura Premier, SM City BF Parañaque, Mega Fashion

Hall in SM Megamall, SM City Cauayan and SM Center Angono, with a total gross floor area of 564,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%.

Real Estate Sales

SM Prime recorded a 7% increase in real estate sales in 2014 from ₱20.78 billion to ₱22.15 billion primarily due to increase in sales take-up and higher construction accomplishments of projects launched in 2011 up to 2013 namely, Shell, Green, Shine, Breeze, Grace, Shore, Grass Phase 2 and Trees Residences. Actual construction of projects usually starts within one year from launch date and revenues are recognized in the books based on percentage of completion.

Cinema Ticket Sales

SM Prime cinema ticket sales significantly increased by 14% to ₱4.27 billion in 2014 from ₱3.74 billion in 2013. The increase was due to the showing of local blockbuster movies with sales growth of 30% year-on-year and international movies as well as opening of additional digital cinemas in the new malls and expansions. The major blockbusters screened in 2014 were "Transformers: Age of Extinction," "The Amazing Spiderman 2," "Starting Over Again," "Maleficent," and "Bride for Rent." The major blockbusters shown in 2013 were "Ironman 3," "Man of Steel," "It Takes a Man and a Woman," "Thor: The Dark World," and "My Little Bossing." Excluding the new malls and expansions, same-store growth in cinema ticket sales is at 10%.

Other Revenues

Other revenues likewise increased by 8% to ₱3.32 billion in 2014 from ₱3.08 billion in 2013. The increase was mainly due to opening of new amusement rides in SM By the Bay in Mall of Asia and Sky Ranch in Tagaytay and in Pampanga, reopening of ice skating rink and bowling center in SM Megamall last January 2014, and increase in sponsorship income and merchandise sales from snackbars. This account is mainly composed of amusement income from rides, bowling and ice skating operations including the Exploreum and SM Storyland, merchandise sales from snackbars and food and beverages from hotels and convention centers.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱38.55 billion in the year ended 2014, an increase of 8% from ₱35.66 billion in the year ended 2013, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate was ₱12.26 billion in 2014, representing an increase of 3% from ₱11.92 billion in 2013 primarily due to costs related to higher recognized real estate sales due to increase in construction accomplishments in 2014. Gross profit margin for residential improved to 45% in 2014 compared to 43% in 2013 as a result of improving cost efficiencies as well as rationalization of expenses.

Operating Expenses

SM Prime's consolidated operating expenses increased by 11% to ₱26.30 billion in 2014 compared to last year's ₱23.74 billion. Same-store mall growth in operating expenses is 5% and the balance is mainly attributable to the opening of new malls and expansions.

Contributors to the increase are depreciation and amortization, administrative expenses, film rentals, and business taxes and licenses, in line with related increase in revenues as well as the opening of new malls and expansions.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 11% to ₱4.10 billion in 2014 compared to ₱3.69 billion in 2013 due to new bank loans and the ₱20.0 billion retail bond availed in 2014 for working capital and capital expenditure requirements.

Interest and Dividend Income

Interest and dividend income decreased by 33% to ₱0.73 billion in 2014 from ₱1.09 billion in 2013. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and available-for-sale investments. The decrease in interest income is due to the pretermination of short-term investments in February 2014 and lower average balance of cash and cash equivalents in 2014 as compared to last year. The decrease in dividend income is due to less dividends received on available-for-sale investments held compared to the same period last year.

Other income (charges) - net

Other charges – net decreased by 23% to ₱645 million in 2014 from ₱833 million in 2013. In 2013, SM Prime incurred restructuring costs amounting to ₱1.28 billion related to its Reorganization.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 20% to ₱4.78 billion in 2014 from ₱3.98 billion in 2013. The increase is due to the related increase in taxable income and expiration of income tax holiday incentives in the residential business unit.

Net income

As a result of the foregoing, consolidated net income for the year ended December 31, 2014 increased by 13% to ₱18.39 billion from ₱16.27 billion in the same period last year.

Balance Sheet Accounts

Cash and cash equivalents significantly increased by 30% from ₱27.14 billion to ₱35.25 billion as of December 31, 2013 and 2014, respectively. Part of this account still includes portion of the proceeds from the issuance of bonds in September 2014 amounting to ₱20.00 billion, the US$210 million loan and the $400 million top-up placement in November 2014 to finance working capital and capital expenditure requirements in 2014.

Investments held for trading decreased by 16% from ₱1.15 billion to ₱0.97 billion as of December 31, 2013 and 2014, respectively, due to scheduled maturities of investment in bonds.

Receivables increased by 13% from ₱27.18 billion to ₱30.69 billion as of December 31, 2013 and 2014, respectively, mainly due to increase in construction accomplishments of sold units as well as new sales for the period. This account also includes rent receivables from leases of shopping mall spaces.

Condominium and residential units increased by 24% from ₱6.10 billion to ₱7.58 billion as of December 31, 2013 and 2014, respectively, mainly due to completion of condominium towers in Blue, Grass Phase 1, Jazz and Sun.

Land and development increased by 22% from ₱34.82 billion to ₱42.46 billion as of December 31, 2013 and 2014, respectively, mainly due to land acquisitions and construction in progress related to residential projects.

Prepaid expenses and other current assets increased by 13% from ₱9.94 billion to ₱11.27 billion as of December 31, 2013 and 2014, respectively, mainly due to deposits and advances to contractors related to residential projects.

Investment properties increased by 18% from ₱171.67 billion to ₱202.18 billion as of December 31, 2013 and 2014, respectively primarily because of ongoing new mall projects located in Cebu City, Cabanatuan and San Mateo in the Philippines and Zibo and Tianjin in China. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-Com and Conrad Manila.

Available-for-sale investments increased by 27% from ₱23.37 billion to ₱29.67 billion as of December 31, 2013 and 2014, respectively, due to higher market prices of listed shares held under this portfolio.

Derivative assets decreased by 8% from ₱1.78 billion to ₱1.63 billion as of December 31, 2013 and 2014, mainly resulting from net fair value changes on a $350 million cross currency swap transaction designated as a cash flow hedge. Likewise, derivative liabilities decreased by 63% from ₱160 million to ₱59 million as of December 31, 2013 and 2014, respectively, due to marked-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

Deferred tax assets decreased by 6% from ₱691 million to ₱650 million as of December 31, 2013 and 2014, respectively, mainly due to MCIT. Deferred tax liabilities decreased by 4% from ₱2.02 billion to ₱1.93 billion as of December 31, 2013 and 2014, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Other noncurrent assets decreased by 17% from ₱29.27 billion to ₱24.24 billion as of December 31, 2013 and 2014, respectively, mainly due to subsequent reclassification of deposits for land to land and development.

Loans payable decreased by 18% from ₱3.25 billion to ₱2.67 billion as of December 31, 2013 and 2014, respectively, due to subsequent payments of maturing loans.

Accounts payable and other current liabilities decreased by 20% from ₱45.30 billion to ₱36.38 billion as of December 31, 2013 and 2014, respectively, mainly due to payment of advances.

Long-term debt increased by 23% from ₱103.06 billion to ₱126.61 billion as of December 31, 2013 and 2014, respectively, due to issuance of bonds in September 2014 amounting to ₱20.00 billion and the availment of US$210 million loan to fund capital expenditures and for working capital requirements.

Tenants' deposits increased by 29% from ₱10.25 billion to ₱13.25 billion as of December 31, 2013 and 2014, respectively, due to the new malls and expansions which opened in 2013 and 2014. Likewise, liability for purchased land increased by 5% from ₱1.12 billion to ₱1.17 billion as of December 31, 2013 and 2014, respectively, due to landbanking.

The Company's key financial indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) earnings before interest expense, income taxes, depreciation and amortization (EBITDA); (5) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (6) interest coverage ratio which measures the ratio of EBITDA to interest expense; (7) operating income to revenues which basically measures the gross profit ratio; (8) EBITDA margin which measures the ratio of EBITDA to gross revenues and (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to stockholders' equity is steady at 0.39:0.61 as of December 31, 2014 and 2013. Similarly, net interest-bearing debt to stockholders' equity was also unchanged at 0.32:0.68 as of December 31, 2014 and 2013 in spite of the increase in long-term debt in 2014, due to the $400 million top-up placement last November 2014.

In terms of profitability, ROE is steady at 10% as of December 31, 2014 and 2013.

Debt to EBITDA slightly increased to 3.82:1 as of December 31, 2014 from 3.55:1 as of December 31, 2013, while interest coverage ratio increased to 8.26:1 as of December 31, 2014 from 8.12:1 as of December 31, 2013 as a result of the new loans availed in 2014. EBITDA margin improved to 51% as of December 31, 2014 from 50% as of December 31, 2013.

Consolidated operating income to revenues improved to 42% as of December 31, 2014 from 40% as of December 31, 2013. Net income to revenues likewise improved at 28% as of December 31, 2014 from 27% as of December 31, 2013.

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

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

For the year 2015, the Company expects to incur capital expenditures of approximately ₱70 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has fifty shopping malls in the Philippines with 6.5 million square meters of gross floor area and five shopping malls in China with 0.8 million square meters of gross floor area. For 2015, the malls business unit will open five new malls, located in SRP Cebu, Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as expansions of SM City Iloilo and SM City Lipa. By end 2015, the malls business unit will have 54 malls in the Philippines and six in China with an estimated combined gross floor area of 8.2 million square meters.

SM Prime currently has twenty five residential projects in the market, twenty three of which are in Metro Manila and two in Tagaytay. For 2015, SM Prime is launching projects located in Quezon City, Taguig City, Tagaytay City, Parañaque City, Mandaluyong City, Las Piñas City, Makati City and the Mall of Asia Complex, equivalent to about 11,000 - 15,000 additional units.

SM Prime's Commercial Properties Group has four office buildings with an estimated gross leasable area of 122,000 square meters and is currently constructing Three E-Com Center scheduled for opening in 2017. Five E-Com Center is targeted for completion by the second quarter of 2015.

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay is expected to open in the last quarter of 2015.

<u>2013</u>

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

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

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

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

Revenue

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

Rent

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

Real Estate Sales

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

Cinema Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

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

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

Other Income (Charges)

Interest Expense

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

Restructuring Costs

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

Interest and Dividend Income

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

Net income

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2012

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

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

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

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

Revenue

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

Rent

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

Real Estate Sales

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

Cinema Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

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

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

Other Income (Charges)

Interest Expense

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

Interest and Dividend Income

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

Net income

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

Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 7. Financial Statements

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

ITEM 8. Information on Independent Accountant and Other Related Matters

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

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

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

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

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

The Company and its subsidiaries paid SGV & Co. ₱7.0 million for external audit services for the years 2014 and 2013. In 2014, SGV & Co. did the review of the Interim Condensed Consolidated Financial Statements as at March 31, 2014 and for the three-month periods ended March 31, 2014 and 2013. In 2013, SGV & Co. likewise did the review of the Pro-forma Financial Statements as at December 31, 2012 and for the years ended December 31, 2012, 2011 and 2010 and the audit and review of the Combined Financial Statements as at December 31, 2012 and for the years ended December 31, 2012, 2011 and 2010 and as at September 30, 2013 and for the periods ended September 30, 2013 and 2012, respectively, in relation to the SM Property Group Restructuring. There were no other professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from entities other than the external auditor.

PART III- CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman Emeritus	Henry Sy, Sr.	Filipino	90
Chairman	Henry T. Sy, Jr.	Filipino	61
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	71
Independent Director	Gregorio U. Kilayko	Filipino	60
Independent Director	Joselito H. Sibayan	Filipino	56
Director and President	Hans T. Sy	Filipino	59
Director	Herbert T. Sy	Filipino	58
Director	Jorge T. Mendiola	Filipino	55
Adviser to the Board of Directors	Teresita T. Sy	Filipino	64
Adviser to the Board of Directors	Elizabeth T. Sy	Filipino	62
Corporate Secretary/Alternate Compliance Officer	Elmer B. Serrano	Filipino	47
Assistant Corporate Secretary	Marianne M. Guerrero	Filipino	51
Executive Vice President/Corporate Information Officer	Jeffrey C. Lim	Filipino	53
Chief Finance Officer/Compliance Officer	John Nai Peng C. Ong	Filipino	44
Vice President – Internal Audit	Davee M. Zuniga	Filipino	43
Head, Malls	Anna Maria S. Garcia	Filipino	59
Head, Residential (Primary)	Jose Mari H. Banzon	Filipino	54
Head, Residential (Secondary)	Shirley C. Ong	Filipino	53
Head, Commercial	Dave L. Rafael	Filipino	56
Head, Hotels and Convention Centers	Ma. Luisa E. Angeles	Filipino	56

Board of Directors

Henry Sy, Sr. served as Chairman of the Board of Directors of SM Prime from 1994 until April 2014. He is the founder of the SM Group, and is currently, Chairman of SM Investments Corporation (SMIC) and HPI. He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses. Mr. Sy earned his Associate of Arts Degree in Commerce Studies at Far Eastern University and was conferred an Honorary Doctorate in Business Management by De La Salle University.

Henry T. Sy, Jr. is responsible for the real estate acquisitions and development activities of the SM Group, which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is Vice Chairman of SMIC, Chairman and Chief Executive Officer of SMDC, Vice Chairman and President of HPI, Chairman of Pico de Loro Beach and Country Club, Inc., and President of The National Grid Corporation of the Philippines. He graduated with a Management Degree from De La Salle University.

Jose L. Cuisia, Jr.* is the Vice Chairman of the Board of Directors of SM Prime. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company (Philamlife) and is currently the Vice-Chairman of Philamlife since August 2009. He also served as Governor of Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He graduated with a Bachelor's Degree in Commerce from De La Salle University and took his Master in Business Administration (MBA) at the prestigious Wharton School of the University of Pennsylvania. In May 2011, he was awarded the

"Joseph Wharton Award for Lifetime Achievement" by the Wharton School of the University of Pennsylvania for an outstanding career in banking and social security system.

Gregorio U. Kilayko* is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Barings' stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He also served as a director of the demutualized Philippine Stock Exchange in 2003. He took his MBA at the Wharton School of the University of Pennsylvania.

Joselito H. Sibayan* has spent the past 28 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles, he was Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status.

** Independent director – The Independent Directors of the Company are Messrs.* ***Jose L. Cuisia, Jr., Gregorio U. Kilayko and Joselito H. Sibayan****. The Company has complied and will comply with the Guidelines set forth by Securities Regulation Code (SRC) Rule 38, as amended, 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.*

Hans T. Sy has served as President since 2004. He has held key positions in businesses related to banking, real estate development, mall operations, as well as leisure and entertainment. In the SM Group, his current positions include Adviser to the Board of SMIC, Director of HPI, and Vice Chairman of SMDC. He is also Chairman of China Banking Corporation and National University. Mr. Sy is a Mechanical Engineering graduate of De La Salle University.

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

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

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

Elizabeth T. Sy was elected as an Adviser to the Board in April 2012. She was the Senior Vice President for Marketing from 1994 up to April 2012. She also oversees the SM Group's involvement in the tourism and hospitality industry as Co-Chairman of the Pico de Loro Beach and Country Club Inc. and as President of the SMHCC. She also serves as Adviser to the Board of SMIC and as a member of the Board of Directors at the BDO Private Bank.

Members of the Board of Directors are given a standard per diem of P10,000 per Board meeting, except for the Chairman and Vice Chairman which are given P20,000 per Board meeting.

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

Marianne M. Guerrero is the Assistant Corporate Secretary and also the Senior Vice President for Legal of SMIC. Prior to joining the SM Group, she was Senior Vice President of United Overseas Bank Philippines. She is a graduate of the Ateneo Law School and obtained her college degree from the Ateneo de Manila University.

Executive Officers

Jeffrey C. Lim is the Executive Vice President of SMPH, Inc. and a member of its Executive Committee, as well as the President of SMDC. He is a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SMPH's subsidiaries. He is a member of the Management Board of the Asia Pacific Real Estate Association. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company in 1994, he worked for a multi-national company and SGV & Co.

John Nai Peng C. Ong is the Chief Finance Officer and Compliance Officer. He holds certain board positions in other SMPH's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Ateneo de Zamboanga University. He received his Master in Management from the Asian Institute of Management. Prior to joining the Company in 2014, he was an assurance partner in SGV & Co.

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

Anna Maria S. Garcia is the Business Unit Head for Malls as President of Shopping Center Management Corp. (SCMC) since 2006. She is the Chairman of Mercantile Stores Group Inc., Chief Executive Officer of Henfels Investments Inc., Board of Director of the Gifts and Graces Fair Trade Foundation Inc. and a member of International Council of Shopping Centers and Philippine Retailers Association of the Philippines. She graduated from University of the Philippines with a degree of BS Foreign Service. Prior to joining SCMC in 1998, she worked as Assistant Vice-President for Department Store Operations, SM Inc.

Jose Mari H. Banzon is the Business Unit Head for Residential (Primary). He holds a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Management of Financial Institutions from De La Salle University. Prior to joining SMDC in 2013, he was executive vice president and general manager of Federal Land, Inc.. He had also worked in the corporate banking department of various financial institutions in the Philippines and Hong Kong.

Shirley C. Ong is the Business Unit Head for Residential (Secondary). She is also the Director of The Midlands Golf and Country Club, Inc. Before joining the Company in 2010, she was First Vice President for Business Development of Filinvest Alabang, Inc. She brings with her over 26 years of experience, 21 years of which has been in various areas of real estate from city development, office/residential, high rise development, residential village development including finance, marketing, sales and property management. She holds a Bachelor of Arts degree, Major in Economics (Cum Laude) from the University of Sto. Tomas and is a candidate for Master in Economics at the Institute of Economic Policy Research of the University of Asia & Pacific.

Dave L. Rafael is the Business Unit Head for Commercial. He has a Bachelor of Arts degree from the Ateneo de Manila University and an MBA from the Colgate Darden School of Business Administration, University of Virginia. Prior to joining the Company in 2009, he was with Ayala Land for 21 years holding various positions in shopping center operations, project development, marketing and local and international sales.

Ma. Luisa E. Angeles is the Business Unit Head for Hotels and Convention Centers. She is the Senior Vice President for Operations of SMHCC since 2014. She holds a Bachelor of Science degree in Hotel and Restaurant Administration from the University of the Philippines. She has 34 years of work expertise in the hotel management industry specifically in sales and marketing. She was with EDSA Shangri-La, Shangri-La Bangkok and Shangri-La Hotel International Management, Ltd. holding various positions for 24 years. Prior to that, she rendered 10 years of service to Hyatt Regency Manila and Hyatt Terraces Baguio.

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

Procedure for Nomination of Directors:

- All nominations for directors shall be submitted in writing to the Corporate Secretary of SMPH on or before March 3, 2015. Nominations that are not submitted within such nomination period shall not be valid. A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated a director of SMPH (par. 4 Section 2, Article III, SMPH By-Laws).

- The Nomination Committee meets, pre-screens and checks the qualifications of and deliberates on all persons nominated to be elected to the Board of Directors of SMPH from the pool of candidates submitted by the nominating stockholders. The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for the nomination of independent directors. Said list shall contain all the information about these nominees. Only nominees qualified by the Nomination Committee and whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

- The Nominations Committee shall pre-screen the nominees based on their qualifications, as provided in SMPH's Manual of Corporate Governance.

- In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee; otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

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

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

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

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

Henry Sy, Sr.

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

Henry T. Sy, Jr.

Name of Corporation	***Position***
SM Investments Corporation	Vice Chairman

Jose L. Cuisia, Jr.

Name of Corporation	***Position***
PHINMA Corporation..	Regular Director
Holcim Philippines, Inc...	Regular Director
Manila Water Company, Inc..	Independent Director

Gregorio U. Kilayko

Name of Corporation	***Position***
Belle Corporation...	Independent Director

Joselito H. Sibayan

Name of Corporation	***Position***
Apex Mining Corporation.	Independent Director

Hans T. Sy

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

Herbert T. Sy

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

Teresita T. Sy

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

Elizabeth T. Sy

Name of Corporation	***Position***
SM Investments Corporation...	Adviser to the Board

<u>Involvement in Legal Proceedings</u>

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

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

The members of the Audit and Risk Management Committee are:

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

The members of the Compensation Committee are:

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

The members of the Nomination Committee are:

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

The Nomination Committee with the confirmation of the Board under its Corporate Governance Manual have qualified the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

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

Ms. Linda Panutat nominated to the Board for inclusion in the Final List of Candidates for Independent Directors the following stockholders:

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

Ms. Linda Panutat is not related to Jose L. Cuisia, Jr., Gregorio U. Kilayko and Joselito H. Sibayan.

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

Those elected to the Board as independent directors shall submit to the SEC within thirty (30) days after their election, a Certification on the Qualification and Disqualifications of Independent Directors.

SMPH ensures compliance with SEC memorandum Circular No. 9, Series of 2011, on the term limits for independent directors.

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

Henry T. Sy, Sr.	Chairman Emeritus
Henry T. Sy, Jr.	Chairman
Jose L. Cuisia, Jr.	Vice Chairman and Independent Director
Elmer B. Serrano	Corporate Secretary/Alternate Compliance Officer
Marianne M. Guerrero	Assistant Corporate Secretary
Hans T. Sy	President
Jeffrey C. Lim	Executive Vice President/Corporate Information Officer
John Nai Peng C. Ong	Chief Finance Officer/Compliance Officer
Davee M. Zuniga	Vice President – Internal Audit
Anna Maria S. Garcia	Head, Malls
Jose Mari H. Banzon	Head, Residential (Primary)
Shirley C. Ong	Head, Residential (Secondary)
Dave L. Rafael	Head, Commercial
Ma. Luisa E. Angeles	Head, Hotels and Convention Centers

Family Relationships

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

ITEM 10. Compensation of Directors and Executive Officers

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

Name and Position
Hans T. Sy President
Jeffrey C. Lim Executive Vice-President
John Nai Peng C. Ong Chief Finance Officer
Anna Maria S. Garcia Head, Malls
Jose Mari H. Banzon Head, Residential (Primary)

Summary Compensation Table

	Year	Salary	Bonus
President & 4 Most	2015 (estimate)	₱92,000,000	₱15,000,000
Highly Compensated	2014 (actual)	84,000,000	14,000,000
Executive Officers	2013 (actual)	55,000,000	9,000,000
All other officers* as a	2015 (estimate)	₱263,000,000	₱44,000,000
group unnamed	2014 (actual)	239,000,000	40,000,000
	2013 (actual)	189,000,000	31,000,000

**Managers & up*

Certain officers of the Company are seconded from SMIC.

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

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

The following are the owners of the Company common stock in excess of 5% of total outstanding shares:

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**SM Investments Corporation (SMIC)** ***(Ultimate Parent Company)***[1] One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SMIC**[2]	Filipino	14,197,128,988 (b)	49.16
-do-	**PCD Nominee Corp.** [3] MSE Bldg., Ayala Ave., Makati City	**PCD Participants**[4]	Filipino - 7.41% Non-Filipino - 17.70%	7,252,748,854 (r)	25.11

1. The following are the individuals holding the direct beneficial ownership of SMIC: Felicidad T. Sy-3.22%, Henry T. Sy, Jr.-7.32%, Hans T. Sy-8.26%, Herbert T. Sy-8.26%, Harley T. Sy-7.33%, Teresita T. Sy-7.14% and Elizabeth T. Sy-5.85%.

2. Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC and they have the power to vote the common shares of SMIC in SMPH.

3. The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.

4 The PCD is not related to the Company.

(2) Security Ownership of Management as of February 27, 2015

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship Filipino (F)	Amount and Nature of Beneficial Ownership (D) Direct (I) Indirect			Class of Securities Voting (V)	Percent of Class
			February 27, 2015	February 28, 2014	% of Change		
Common	Henry Sy, Sr.	F	653,395,579 (I)	893,395,579 (D&I)	(26.86)	V	2.26
-do-	Jose L. Cuisia, Jr.	F	497,661 (D&I)	497,661 (D&I)	-	V	0.00
-do-	Teresita T. Sy	F	666,708,532 (D&I)	666,708,532 (D&I)	-	V	2.31
-do-	Henry T. Sy, Jr.	F	680,818,440 (D)	680,198,440 (D)	(0.09)	V	2.36
-do-	Hans T. Sy	F	685,163,512 (D&I)	685,161,635 (D&I)	0.00	V	2.37
-do-	Herbert T. Sy	F	666,389,522 (D&I)	666,389,522 (D&I)	-	V	2.31
-do-	Elizabeth T. Sy	F	654,115,892 (D&I)	654,115,892 (D&I)	-	V	2.27
-do-	Gregorio U. Kilayko	F	202,580 (D&I)	202,580 (D&I)	-	V	0.00
-do-	Joselito H. Sibayan	F	66,375 (D)	1,875 (D)	3,440	V	0.00
-do-	Jorge T. Mendiola	F	1,365,167 (D&I)	1,365,167 (D&I)	-	V	0.00
-do-	Jeffrey C. Lim	F	50,000 (I)	50,000 (I)	-	V	0.00
-do-	All directors and executive officers as a group	F	4,008,773,260	4,248,086,883	(5.63)	V	13.88

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

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

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

ITEM 12. Certain Relationships and Related Transactions

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

Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2014, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

Please refer to Note 22 of the attached 2014 consolidated financial statements.

PART IV- CORPORATE GOVERNANCE

ITEM 13. Corporate Governance

Please refer to attached Annual Corporate Governance Report (ACGR).

PART V- EXHIBITS AND SCHEDULES

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

(a) Exhibits - See accompanying Index to Exhibits

(b) Reports on SEC Form 17-C

Reports on Form 17-C (Current Report) have been filed during 2014.

INDEX TO EXHIBITS

Form 17-A

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

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

FORM 17-A, ITEM 7

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

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014 and 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 financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of SM Prime Holdings, Inc. in accordance with 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.

Henry T. Sy Jr.
Chairman

Hans T. Sy
President

John Nai Peng C. Ong
Chief Finance Officer

Signed this 23rd of February, 2015

SUBSCRIBED AND SWORN to before me this MAR 1 2 2015 at PASIG CITY, affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY T. SY, JR.	EB1984540	February 25, 2011	Manila
HANS T. SY	EB4448660	January 14, 2012	Manila
JOHN NAI PENG C. ONG	EC2047924	September 7, 2014	Manila

ANNABELLE THERESE G. PALOMAR
Appointment No. 291 (2014-2015)
Notary Public for Pasig City
Until December 31, 2015
Attorneys Roll No. 63620
Suite 2401 The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR No. 0381605; 01.07.15; Pasig City
IBP No. 0985151; 01.06.15; RSM

Doc. No. 436;
Page No. 089;
Book No. I;
Series of 2015.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 4 - 0 0 0 0 8 8

Company Name

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	831-1000	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
2,514		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. John Nai Peng C. Ong		831-1000	

Contact Person's Address

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

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance 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. 4751259, January 5, 2015, Makati City

February 23, 2015

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 22, 28 and 29)	**₱35,245,206**	₱27,141,506
Short-term investments (Notes 8, 22, 28 and 29)	**–**	887,900
Investments held for trading (Notes 9, 22, 28 and 29)	**967,511**	1,151,464
Receivables (Notes 10, 17, 22, 28 and 29)	**30,686,968**	27,184,434
Condominium and residential units for sale (Note 11)	**7,578,885**	6,102,653
Land and development - current portion (Note 12)	**19,571,526**	13,281,246
Available-for-sale investments (Notes 13, 22, 28 and 29)	**676,755**	–
Prepaid expenses and other current assets (Notes 14, 22, 28 and 29)	**11,269,530**	9,936,120
Total Current Assets	**105,996,381**	85,685,323
Noncurrent Assets		
Available-for-sale investments - net of current portion (Notes 13, 22, 28 and 29)	**28,994,983**	23,369,074
Property and equipment - net (Note 15)	**2,258,387**	1,578,893
Investment properties - net (Notes 16, 20 and 22)	**202,180,666**	171,666,409
Land and development - net of current portion (Note 12)	**22,886,306**	21,539,938
Derivative assets (Notes 28 and 29)	**1,632,814**	1,778,810
Deferred tax assets - net (Note 26)	**650,153**	690,525
Other noncurrent assets (Notes 17, 22, 25, 28 and 29)	**24,240,469**	29,274,710
Total Noncurrent Assets	**282,843,778**	249,898,359
	₱388,840,159	₱335,583,682
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 18, 22, 28 and 29)	**₱2,670,000**	₱3,250,000
Accounts payable and other current liabilities (Notes 19, 22, 28 and 29)	**36,378,819**	45,298,216
Current portion of long-term debt (Notes 20, 22, 28 and 29)	**11,006,880**	7,387,260
Income tax payable	**743,506**	946,593
Total Current Liabilities	**50,799,205**	56,882,069
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 28 and 29)	**115,606,147**	95,675,730
Tenants' deposits (Notes 27, 28 and 29)	**13,251,526**	10,248,792
Liability for purchased land - net of current portion (Notes 19, 28 and 29)	**1,170,855**	1,117,809
Deferred tax liabilities - net (Note 26)	**1,934,174**	2,022,539
Derivative liabilities (Notes 28 and 29)	**58,705**	159,974
Other noncurrent liabilities (Notes 16, 22, 25, 28 and 29)	**3,781,344**	3,255,244
Total Noncurrent Liabilities	**135,802,751**	112,480,088
Total Liabilities (Carried Forward)	**186,601,956**	169,362,157

	December 31	
	2014	2013
Total Liabilities (Brought Forward)	**₱186,601,956**	₱169,362,157
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 6, 21 and 30)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 6 and 21)	**39,302,194**	22,303,436
Cumulative translation adjustment	**840,430**	1,381,268
Net unrealized gain on available-for-sale investments (Note 13)	**25,905,440**	19,958,330
Net fair value changes on cash flow hedges (Note 29)	**249,332**	429,149
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(141,524)**	771
Retained earnings (Note 21):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**60,921,048**	47,807,664
Treasury stock (Notes 21 and 30)	**(3,355,530)**	(3,980,378)
Total Equity Attributable to Equity Holders of the Parent	**199,087,690**	163,266,540
Non-controlling Interests (Note 21)	**3,150,513**	2,954,985
Total Equity	**202,238,203**	166,221,525
	₱388,840,159	₱335,583,682

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2014	2013	2012
REVENUE			
Rent (Notes 22 and 27)	**₱36,497,242**	₱32,195,285	₱28,951,727
Sales:			
Real estate	**22,151,618**	20,775,195	22,575,692
Cinema ticket	**4,268,531**	3,740,030	3,477,262
Others (Note 22)	**3,322,679**	3,083,900	2,210,413
	66,240,070	59,794,410	57,215,094
COSTS AND EXPENSES (Note 23)	**38,553,561**	35,658,865	35,145,277
INCOME FROM OPERATIONS	**27,686,509**	24,135,545	22,069,817
OTHER INCOME (CHARGES)			
Interest expense (Notes 22, 24, 28 and 29)	**(4,099,499)**	(3,686,603)	(3,064,825)
Interest and dividend income (Notes 13, 22 and 24)	**731,884**	1,093,870	1,062,028
Restructuring costs and others - net (Notes 6, 9, 12, 13, 17, 20, 22 and 29)	**(644,758)**	(832,721)	366,874
	(4,012,373)	(3,425,454)	(1,635,923)
INCOME BEFORE INCOME TAX	**23,674,136**	20,710,091	20,433,894
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**4,697,753**	4,392,114	3,687,530
Deferred	**79,894**	(407,951)	102,931
	4,777,647	3,984,163	3,790,461
NET INCOME	**₱18,896,489**	₱16,725,928	₱16,643,433
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱18,390,352**	₱16,274,820	₱16,202,777
Non-controlling interests (Note 21)	**506,137**	451,108	440,656
	₱18,896,489	₱16,725,928	₱16,643,433
Basic/Diluted earnings per share (Note 30)	**₱0.660**	₱0.586	₱0.584

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
NET INCOME	**₱18,896,489**	₱16,725,928	₱16,643,433
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized gain due to changes in fair value in available-for-sale investments (Note 13)	**5,947,110**	177,309	6,457,624
Net fair value changes on cash flow hedges (Note 29)	**(179,817)**	429,149	–
Cumulative translation adjustment	**(540,838)**	774,031	(290,688)
	5,226,455	1,380,489	6,166,936
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods - Remeasurement income (loss) on defined benefit obligation (Note 25)	**(143,144)**	61,192	(33,088)
TOTAL COMPREHENSIVE INCOME	**₱23,979,800**	₱18,167,609	₱22,777,281
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱23,474,512**	₱17,717,168	₱22,336,625
Non-controlling interests (Note 21)	**505,288**	450,441	440,656
	₱23,979,800	₱18,167,609	₱22,777,281

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)											
	Capital Stock (Notes 6, 21 and 30)	Additional Paid-in Capital - Net (Notes 6 and 21)	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments (Note 13)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Unappropriated	Treasury Stock (Notes 21 and 30)	Total	Non-controlling Interests (Note 21)	Total Equity
At January 1, 2014	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330	₱771	₱429,149	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525
Net income for the year	–	–	–	–	–	–	–	18,390,352	–	18,390,352	506,137	18,896,489
Other comprehensive income (loss)	–	–	(540,838)	5,947,110	(142,295)	(179,817)	–	–	–	5,084,160	(849)	5,083,311
Total comprehensive income for the year	–	–	(540,838)	5,947,110	(142,295)	(179,817)	–	18,390,352	–	23,474,512	505,288	23,979,800
Cash dividends (Note 21)	–	–	–	–	–	–	–	(5,276,968)	–	(5,276,968)	–	(5,276,968)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(309,760)	(309,760)
Reissuance of treasury shares (Note 21)	–	17,021,771	–	–	–	–	–	–	623,916	17,645,687	–	17,645,687
Acquisition of non-controlling interests (Note 21)	–	(23,013)	–	–	–	–	–	–	932	(22,081)	–	(22,081)
At December 31, 2014	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440	(₱141,524)	₱249,332	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
At January 1, 2013	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021	(₱61,088)	₱–	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985
Net income for the year	–	–	–	–	–	–	–	16,274,820	–	16,274,820	451,108	16,725,928
Other comprehensive income (loss)	–	–	774,031	177,309	61,859	429,149	–	–	–	1,442,348	(667)	1,441,681
Total comprehensive income for the year	–	–	774,031	177,309	61,859	429,149	–	16,274,820	–	17,717,168	450,441	18,167,609
Equity adjustment from common control business combination (Note 6)	–	2,480,478	–	–	–	–	–	(26,942)	–	2,453,536	–	2,453,536
Cash dividends (Note 21)	–	–	–	–	–	–	–	(4,690,893)	–	(4,690,893)	–	(4,690,893)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(329,760)	(329,760)
Acquisition of non-controlling interests	–	153,964	–	–	–	–	–	–	5,084	159,048	–	159,048
At December 31, 2013	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330	₱771	₱429,149	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525

	Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)											
	Capital Stock (Notes 6, 21 and 30)	Additional Paid-in Capital - Net (Notes 6 and 21)	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments (Note 13)	Remeasurement Loss on Defined Benefit Obligation (Note 25)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Unappropriated	Treasury Stock (Notes 21 and 30)	Total	Non-controlling Interests (Note 21)	Total Equity
At January 1, 2012	₱29,691,565	₱17,732,721	₱897,925	₱13,323,397	(₱28,000)	₱–	₱23,200,000	₱45,825,366	(₱3,985,462)	₱126,657,512	₱2,403,648	₱129,061,160
Net income for the year	–	–	–	–	–	–	–	16,202,777	–	16,202,777	440,656	16,643,433
Other comprehensive income (loss)	–	–	(290,688)	6,457,624	(33,088)	–	–	–	–	6,133,848	–	6,133,848
Total comprehensive income (loss) for the year	–	–	(290,688)	6,457,624	(33,088)	–	–	16,202,777	–	22,336,625	440,656	22,777,281
Equity adjustment from common control business combination (Note 6)	–	1,936,273	–	–	–	–	–	727,966	–	2,664,239	–	2,664,239
Cash dividends (Note 21)	–	–	–	–	–	–	–	(4,030,695)	–	(4,030,695)	–	(4,030,695)
Stock dividends (Note 21)	3,474,735	–	–	–	–	–	–	(3,474,735)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(10,000)	(10,000)
Appropriation during the year - net of reversal	–	–	–	–	–	–	19,000,000	(19,000,000)	–	–	–	–
At December 31, 2012	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021	(₱61,088)	₱–	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱23,674,136**	₱20,710,091	₱20,433,894
Adjustments for:			
Depreciation and amortization (Note 23)	**6,579,781**	5,980,940	5,126,801
Interest expense (Note 24)	**4,099,499**	3,686,603	3,064,825
Interest income and dividend income (Notes 13 and 24)	**(731,884)**	(1,093,870)	(1,062,028)
Restructuring costs (Note 6)	–	1,276,629	–
Loss (gain) on:			
Unrealized foreign exchange	**173,510**	(29,994)	(107,495)
Fair value changes on investment held-for-trading (Note 9)	**101,076**	(93,996)	(194,768)
Fair value changes on derivatives - net	**(21,340)**	(62,717)	16,278
Sale of available-for-sale investments (Note 13)	**(2,743)**	(285,129)	(158,444)
Sale/retirement of investment properties and property and equipment	–	(68,579)	(253,590)
Operating income before working capital changes	**33,872,035**	30,019,978	26,865,473
Decrease (increase) in:			
Receivables	**(3,559,562)**	(8,470,424)	(10,377,471)
Condominium and residential units for sale	**2,667,246**	4,196,726	618,220
Land and development	**(13,906,967)**	(11,109,456)	(11,281,180)
Prepaid expenses and other current assets	**(910,972)**	2,722,125	(3,079,072)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(9,230,430)**	9,478,924	3,909,461
Tenants' deposits	**3,019,113**	1,192,142	3,577,509
Cash generated from operations	**11,950,463**	28,030,015	10,232,940
Income tax paid	**(4,894,650)**	(4,116,235)	(3,599,308)
Interest paid	**(46,503)**	(95,258)	(45,936)
Cash provided by operating activities	**7,009,310**	23,818,522	6,587,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Deductions (additions) to:			
Investment properties (Note 16)	**(35,510,709)**	(24,553,198)	(22,413,476)
Available-for-sale investments	**(357,071)**	(2,396)	(914,339)
Property and equipment (Note 15)	**(158,016)**	(440,890)	(580,236)
Investments held for trading	**(65,416)**	–	–
Proceeds from pretermination of short-term investments (Note 8)	**887,900**	–	–
Proceeds from early redemption of available-for-sale investments	–	1,000,000	–
Proceeds from sale of:			
Held-for-trading investments	**150,000**	300,448	38,508
Investment properties	–	99,991	1,124,850
Available-for-sale-investments	**4,258**	397,977	282,420
Interest received	**418,076**	692,313	738,434
Dividends received	**333,980**	354,602	1,795,812
Investment in a joint venture and acquisition of a subsidiary - net of cash acquired (Notes 6 and 17)	–	(7,352,729)	–
Decrease (increase) in other noncurrent assets (Note 17)	**4,603,945**	(1,211,579)	(599,679)
Net cash used in investing activities	**(29,693,053)**	(30,715,461)	(20,527,706)

(Forward)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 18 and 20)	**₱48,121,250**	₱76,494,060	₱38,797,456
Payments of:			
Long-term debt (Note 20)	**(16,175,802)**	(20,812,576)	(13,123,309)
Dividends (Note 21)	**(5,586,728)**	(5,020,653)	(5,012,766)
Interest	**(4,137,458)**	(4,111,850)	(3,006,566)
Bank loans (Note 18)	**(9,070,000)**	(33,210,179)	(1,200)
Proceeds from reissuance of treasury shares (Note 21)	**17,645,687**	–	–
Proceeds from issuance of common and treasury shares	**–**	–	400,000
Proceeds from unwinding of derivatives	**–**	(22,071)	–
Payments of restructuring costs (Note 6)	**–**	(607,172)	–
Increase in non-controlling interests	**–**	(667)	(146,730)
Deposit for future subscription and others	**–**	–	187
Net cash provided by financing activities	**30,796,949**	12,708,892	17,907,072
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(9,506)**	30,187	(13,005)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,103,700**	5,842,140	3,954,057
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**27,141,506**	21,299,366	17,345,309
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱35,245,206**	₱27,141,506	₱21,299,366

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Corporate Restructuring**

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

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

As at December 31, 2014, SMPH is 49.16% and 24.74% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

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

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

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on February 23, 2015.

2. Basis of Preparation

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

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS.

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

Company	Country of Incorporation	Percentage of Ownership	
		2014	2013
First Asia Realty Development Corporation (FARDC)	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp.	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
SMDC and Subsidiaries[(a)]	- do -	**100.0**	100.0
Magenta Legacy, Inc.[(a)]	- do -	**100.0**	100.0
Associated Development Corporation[(a)]	- do -	**100.0**	100.0
HPI[(a)]	- do -	**100.0**	100.0
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)[(a)]	- do -	**100.0**	100.0
SM Arena Complex Corporation (SMACC)[(a)]	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)[(a)]	- do -	**100.0**	100.0
Prime Metro Estate, Inc. (PMI)[(a)]	- do -	**60.0**	60.0
Tagaytay Resort and Development Corporation (TRDC)[(a)]	- do -	**100.0**	100.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)[(b)]	- do -	**100.0**	100.0
Summerhills Home Development Corp. (SHDC)[(c)]	- do -	**100.0**	100.0

(Forward)

Company	Country of Incorporation	Percentage of Ownership 2014	2013
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	**100.0**	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries[c]	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0

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

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;

- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

Changes in Accounting Policies and Disclosures
The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1 2014. The nature and impact of each new standard and amendment are described below

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*). These amendments 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. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Company, since none of the entities within the Company qualifies to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments) clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments) remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments) provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact as the Company has not novated its derivatives during the current or prior periods.

- Philippine Interpretation IFRIC 21, *Levies* (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. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)

- In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company.

Annual Improvements to PFRSs (2011-2013 cycle)

- In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

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

Standards and Interpretations

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

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. 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 FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in 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 into PFRS 9, including the embedded derivative separation 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.

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

- 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 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) 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 revenue and cost recognition from percentage of completion method to completed contract method. The Company has made an assessment and is continuously monitoring the impact of this new interpretation to its consolidated financial statements.

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments), requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010–2012 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after January 1, 2015 and are applied prospectively:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition,* is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* (Amendments) are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  The amendment affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment, and PAS 38, Intangible Assets – Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Company's financial position or performance.

- PAS 24, *Related Party Disclosures – Key Management Personnel,* is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011–2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.

  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PFRS 9.

- PAS 40, *Investment Property,* is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Future standards effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments), clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments), change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require the produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments), will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28*, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments), require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal* (Amendments), is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts,* requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* (Amendments), is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – Disclosure Of Information 'Elsewhere In The Interim Financial Report*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments – Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an impact on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is

not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC

- IFRS 15 *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising fromcontracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

3. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱2,600 million and ₱2,930 million as at December 31, 2014 and 2013, respectively (see Note 29). Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱59 million and ₱160 million as at December 31, 2014 and 2013, respectively (see Note 29).

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

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

Classified under this category are cash and cash equivalents, short-term investments, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under "Prepaid expenses and other current assets" account) and bonds and deposits (included under "Other noncurrent assets" account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱8,342 million and ₱10,277 million as at December 31, 2014 and 2013, respectively (see Note 29).

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

The Company has no financial assets under this category as at December 31, 2014 and 2013.

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

Classified under this category are the investments in quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 29).

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

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

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱133,237 million and ₱109,829 million as at December 31, 2014 and 2013, respectively (see Note 29).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Land cost;

- Amounts paid to contractors for construction and development; and

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PAS 39, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value.

Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statements of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Impairment of Nonfinancial Assets

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

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

Tenants' Deposits

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

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

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

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

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

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

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

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

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

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

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

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

Sale of Cinema and Amusement Tickets and Merchandise. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services or the delivery of merchandise. Revenue from sale amusement tickets and merchandise are included in the "Revenue - Others" account in the consolidated statements of income.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Revenue - Others" account in the consolidated statements of income.

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

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

Room rentals, food and beverage, and others. Revenue from room rentals is recognized on actual occupancy, food and beverage sales when orders are served, and other operated departments when the services are rendered. Revenue from other operated departments include, among others, business center, laundry service, and telephone service. Revenue from food and beverage sales and other hotel revenue are included under the "Revenue - Others" account in the consolidated statements of income.

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

Cost and Expenses

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

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

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

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

Pension Benefits

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

Income tax relating to items recognized directly in the consolidated statements of comprehensive income is recognized in the consolidated statements of comprehensive income and not in the consolidated statements of income.
Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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

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

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, if any.

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

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

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

Revenue Recognition. The Company's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale. This 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 ₱22,152 million, ₱20,775 million and ₱22,576 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

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

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

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

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

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

The Company considers each property separately in making its judgment.

The aggregate carrying values of land and development, investment properties and property and equipment amounted to ₱246,897 million and ₱208,066 million as at December 31, 2014 and 2013, respectively (see Notes 12, 15 and 16).

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

Rent income amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 27).

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

Rent expense amounted to ₱1,187 million, ₱1,295 million and ₱926 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 27).

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

There was no impairment loss recognized on AFS investments for the years ended December 31, 2014, 2013 and 2012. The carrying values of AFS investments amounted to ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 13).

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

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

Revenue from sale of real estate amounted to ₱22,152 million, ₱20,775 million and ₱22,576 million for the years ended December 31, 2014, 2013, and 2012, respectively, while the cost of real estate sold amounted to ₱12,257 million, ₱11,921 million and ₱13,976 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 23).

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

Allowance for impairment losses amounted to ₱353 million and ₱323 million as at December 31, 2014 and 2013, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱39,029 million and ₱37,462 million as at December 31, 2014 and 2013, respectively (see Notes 10 and 17).

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

The carrying values of condominium units for sale and land and development amounted to ₱7,579 million and ₱42,458 million as at December 31, 2014, respectively, and ₱6,103 million and ₱34,821 million as at December 31, 2013, respectively (see Notes 11 and 12).

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

The carrying values of AFS investments amounted to ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 13).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱204,439 million and ₱173,245 million as at December 31, 2014 and 2013, respectively (see Notes 15 and 16).

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

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱204,439 million and ₱173,245 million as at December 31, 2014 and 2013, respectively (see Notes 15 and 16).

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

Deferred tax assets recognized in the consolidated balance sheets amounted to ₱1,100 million and ₱1,160 million as at December 31, 2014 and 2013, respectively, while the unrecognized deferred tax assets amounted to ₱101 million and ₱93 million as at December 31, 2014 and 2013, respectively (see Note 26).

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

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

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

5. **Segment Information**

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

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

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

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

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

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

Inter-segment Transactions

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

Business Segment Data

	2014					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
	(In Thousands)					
Revenue:						
External customers	**₱38,642,759**	**₱22,722,516**	**₱2,866,974**	**₱2,007,821**	**₱–**	**₱66,240,070**
Inter-segment	**57,767**	**916**	**71,996**	**3,229**	**(133,908)**	**–**
	₱38,700,526	**₱22,723,432**	**₱2,938,970**	**₱2,011,050**	**(₱133,908)**	**₱66,240,070**
Segment results:						
Income before income tax	**₱17,531,570**	**₱4,995,925**	**₱1,068,261**	**₱317,974**	**(₱239,594)**	**₱23,674,136**
Provision for income tax	**(4,193,180)**	**(246,225)**	**(273,729)**	**(64,513)**	**–**	**(4,777,647)**
Net income	**₱13,338,390**	**₱4,749,700**	**₱794,532**	**₱253,461**	**(₱239,594)**	**₱18,896,489**
Net income attributable to:						
Equity holders of the Parent	**₱12,864,812**	**₱4,749,700**	**₱794,532**	**₱253,461**	**(₱272,153)**	**₱18,390,352**
Non-controlling interests	**473,578**	**–**	**–**	**–**	**32,559**	**506,137**
Segment assets	**₱244,909,574**	**₱106,187,067**	**₱28,617,113**	**₱9,391,400**	**(₱264,995)**	**₱388,840,159**
Segment liabilities	**₱126,202,387**	**₱55,362,092**	**₱3,025,684**	**₱2,276,788**	**(₱264,995)**	**₱186,601,956**
Other information:						
Capital expenditures	**₱32,393,612**	**₱22,546,987**	**₱2,822,857**	**₱1,274,294**	**₱–**	**₱59,037,750**
Depreciation and amortization	**5,362,023**	**304,316**	**601,894**	**311,548**	**–**	**6,579,781**

	2013					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
	(In Thousands)					
Revenue:						
External customers	₱34,332,874	₱20,906,585	₱2,855,564	₱1,600,045	₱99,342	₱59,794,410
Inter-segment	134,258	9,565	58,734	69,723	(272,280)	–
	₱34,467,132	₱20,916,150	₱2,914,298	₱1,669,768	(₱172,938)	₱59,794,410
Segment results:						
Income (loss) before income tax	₱15,773,978	₱4,599,152	₱1,058,465	(₱24,287)	(₱697,217)	₱20,710,091
Benefit from (provision for) income tax	(3,737,260)	(367,900)	(259,480)	(31,241)	411,718	(3,984,163)
Net income (loss)	₱12,036,718	₱4,231,252	₱798,985	(₱55,528)	(₱285,499)	₱16,725,928
Net income (loss) attributable to:						
Equity holders of the Parent	₱11,630,987	₱4,231,252	₱798,985	(₱55,528)	(₱330,876)	₱16,274,820
Non-controlling interests	405,731	–	–	–	45,377	451,108
Segment assets	₱204,805,990	₱97,345,097	₱28,245,291	₱7,173,803	(₱1,986,499)	₱335,583,682
Segment liabilities	₱114,964,693	₱50,203,798	₱3,872,643	₱1,682,990	(₱1,361,967)	₱169,362,157
Other information:						
Capital expenditures	₱25,867,627	₱12,439,263	₱5,002,947	₱146,437	₱–	₱43,456,274
Depreciation and amortization	4,754,081	233,137	619,279	374,443	–	5,980,940

	2012					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidate Balances
			(In Thousands)			
Revenue:						
External customers	₱30,595,666	₱22,511,830	₱2,557,119	₱1,295,199	₱255,280	₱57,215,094
Inter-segment	44,686	2,028	139,559	1,419	(187,692)	–
	₱30,640,352	₱22,513,858	₱2,696,678	₱1,296,618	₱67,588	₱57,215,094
Segment results:						
Income (loss) before income tax	₱14,181,346	₱5,079,307	₱985,632	(₱65,754)	₱253,363	₱20,433,894
Benefit from (provision for) income tax	(3,366,560)	(99,359)	(209,934)	10,346	(124,954)	(3,790,461)
Net income (loss)	₱10,814,786	₱4,979,948	₱775,698	(₱55,408)	₱128,409	₱16,643,433
Net income (loss) attributable to:						
Equity holders of the Parent	₱10,422,595	₱4,979,948	₱775,698	(₱55,408)	₱79,944	₱16,202,777
Non-controlling interests	392,191	–	–	–	48,465	440,656
Segment assets	₱162,121,497	₱88,090,399	₱24,414,846	₱6,080,086	₱3,945,288	₱284,652,116
Segment liabilities	₱85,650,780	₱44,717,364	₱4,652,192	₱1,685,697	(₱2,515,902)	₱134,190,131
Other information:						
Capital expenditures	₱21,114,932	₱11,403,994	₱1,725,722	₱30,244	₱–	₱34,274,892
Depreciation and amortization	3,984,526	151,171	641,267	349,837	–	5,126,801

For the years ended December 31, 2014, 2013 and 2012, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

6. Business Combinations

<u>Common Control Business Combinations</u>

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

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

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

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

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

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

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

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

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

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

  The merger resulted to equity adjustment from common control business combination, included under "Additional paid-in capital" account, amounting to ₱1,753 million (see Note 21).

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

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

The acquisition of real estate companies and real estate assets resulted to equity adjustment from common control business combination, included under "Additional paid-in capital" account, amounting to ₱12,067 million (see Note 21).

Other Common Control Business Combinations
In 2013, SMPH also acquired SM Store (China) Holdings Ltd. Co. (SM Store) through its newly incorporated subsidiary, Simply Prestige Limited, for a nominal amount. As a result of the acquisition, SM Store became a wholly-owned subsidiary of SMPH. SM Store owns and operates all the SM Department Stores in the SM Malls in China. SM Store is owned and controlled by the Sy Family. Thus, the transaction was considered a combination of businesses under common control for which pooling of interests was applied. The excess of the cost of business combination over the paid-up capital amounting to ₱110 million is included under "Additional paid-in capital - net" account (see Note 21).

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

In 2014, the Company completed its acquisition of 100% interest in CHAS.

Total identifiable assets acquired amounted to ₱1,834 million, which mainly consist of investment properties amounting to ₱1,385 and cash and other assets amounting to ₱449. Total identifiable liabilities assumed amounted to ₱149 million, which mainly consist of accounts payable and other current liabilities. The resulting identifiable net assets acquired amounted to ₱1,685 million. No goodwill is recognized upon completion of the acquisition.

The fair value of acquired receivables amounting to ₱37 million (included in "Receivables") approximates their carrying value. No impairment loss was provided on these receivables.

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

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

7. Cash and Cash Equivalents

This account consists of:

	2014	2013
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱3,002,606**	₱2,869,204
Temporary investments (see Note 22)	**32,242,600**	24,272,302
	₱35,245,206	₱27,141,506

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

Interest income earned from cash in banks and temporary investments amounted to ₱304 million, ₱529 million and ₱589 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

8. Short-term Investments

This account pertains to a time deposit amounting to ₱888 million as at December 31, 2013, with fixed interest rate of 3.24%, maturing in October 2014 (see Note 22). The time deposit was preterminated in February 2014.

Interest income earned from short-term investments amounted to ₱16 million, ₱29 million and ₱27 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds and listed common shares. The Philippine government and corporate bonds have yields ranging from 5.88% to 8.64% and 4.90% to 8.64% in 2014 and 2013, respectively. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2015 to 2017.

The movements in this account are as follows:

	2014	2013
	(In Thousands)	
At beginning of the year	**₱1,151,464**	₱1,338,777
Disposals - net	**(84,583)**	(300,448)
Mark-to-market gains (loss) during the year	**(101,076)**	93,996
Unrealized foreign exchange gains	**1,706**	19,139
At end of the year	**₱967,511**	₱1,151,464

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

Interest income earned from investments held for trading amounted to ₱26 million, ₱28 million and ₱43 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

10. Receivables

This account consists of:

	2014	2013
	(In Thousands)	
Trade:		
Sale of real estate	**₱29,607,958**	₱28,012,712
Rent:		
Third parties	**3,878,656**	2,707,222
Related parties (see Note 22)	**2,294,805**	2,674,980
Others (see Note 22)	**55,237**	286,776
Due from related parties (see Note 22)	**365,874**	1,087,182
Nontrade	**90,317**	1,056,324
Receivable from a co-investor (see Note 17)	**269,161**	273,878
Accrued interest (see Note 22)	**142,878**	163,500
Others	**2,676,512**	1,522,100
	39,381,398	37,784,674
Less allowance for impairment	**352,847**	322,904
	39,028,551	37,461,770
Less noncurrent portion of receivables from sale of real estate (see Note 17)	**8,341,583**	10,277,336
	₱30,686,968	₱27,184,434

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

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate pertains mainly to sale of condominiums and residential units, at various terms of payment.

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱3,751 million and ₱3,735 million for the years ended December 31, 2014 and 2013, respectively.

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

- Accrued interest and other receivables are normally collected throughout the financial year.

Interest income earned totaled ₱45 million, ₱67 million and ₱106 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

The movements in the allowance for impairment related to receivables from sale of real estate and other receivables are as follows:

	2014	2013
	(In Thousands)	
At beginning of the year	**₱322,904**	₱188,176
Provision for impairment	**29,943**	134,728
At end of the year	**₱352,847**	₱322,904

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

	2014	2013
	(In Thousands)	
Neither past due nor impaired	**₱30,301,899**	₱32,689,037
Past due but not impaired:		
Less than 30 days	**2,499,328**	928,277
31–90 days	**1,888,204**	1,443,720
91–120 days	**585,374**	480,859
Over 120 days	**3,753,746**	1,919,877
Impaired	**352,847**	322,904
	₱39,381,398	₱37,784,674

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

11. **Condominium and Residential Units for Sale**

This account consists of:

	2014	2013
	(In Thousands)	
Condominium units for sale	**₱7,177,902**	₱5,788,429
Residential units and subdivision lots	**400,983**	314,224
	₱7,578,885	₱6,102,653

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱5,788,429**	₱2,589,917
Transfer from land and development (see Note 12)	**3,997,101**	7,329,622
Cost of real estate sold (see Note 23)	**(2,607,628)**	(4,131,110)
At end of year	**₱7,177,902**	₱5,788,429

Condominium units for sale pertain to the completed projects of SMDC, HPI and Costa. These are stated at cost as at December 31, 2014 and 2013.

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱314,224**	₱379,840
Transfer from land and development (see Note 12)	**156,231**	–
Cost of real estate sold (see Note 23)	**(69,472)**	(65,616)
At end of year	**₱400,983**	₱314,224

Residential units and subdivision lots for sale are stated at cost as at December 31, 2014 and 2013.

12. **Land and Development**

This account consists of :

	2014	2013
	(In Thousands)	
Land and development	**₱40,856,084**	₱33,302,111
Land held for future development	**1,601,748**	1,519,073
	42,457,832	34,821,184
Less noncurrent portion	**22,886,306**	21,539,938
	₱19,571,526	₱13,281,246

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱33,302,111**	₱30,560,111
Development cost incurred	**14,677,138**	15,099,301
Land acquisitions	**6,883,083**	1,760,724
Capitalized borrowing cost	**690,462**	866,061
Cost of real estate sold (see Note 23)	**(9,579,932)**	(7,724,013)
Transfer to condominium and residential units for sale (see Note 11)	**(4,153,332)**	(7,329,622)
Reclassified to investment properties	**(886,597)**	–
Land cost transferred from land held for future development	–	80,131
Reclassified to property and equipment	–	(10,582)
Others	**(76,849)**	–
At end of year	**₱40,856,084**	₱33,302,111

Borrowing costs capitalized to land and development account amounted to ₱690 million and ₱866 million in 2014 and 2013, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.9% to 4.9% in 2014 and 3.8% to 5.1% in 2013.

SMDC
Land and development include those attributable to SMDC which pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱31,912 million and ₱32,645 million as at December 31, 2014 and 2013, respectively.

Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastracture projects amounted to ₱290 million and ₱400 million as at December 31, 2014 and 2013, respectively.

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

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱1,181 million and ₱1,364 million as at December 31, 2014 and 2013, respectively.

Land Held for Future Development
This represents the payment received by HPI from Belle Corporation (Belle) for its subscription to HPI's capital stock before the tender offer by SM Land and parcels of land subsequently acquired by HPI from Belle after its subscription. The movements in "Land held for future development" are as follows:

	2014	2013
	(In Thousands)	
At beginning of year	**₱1,519,073**	₱1,595,893
Acquisition and transferred-in costs and others	**82,675**	3,311
Transfer to land and development costs	**–**	(80,131)
At end of year	**₱1,601,748**	₱1,519,073

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

13. **Available-for-sale Investments**

This account consists of investments in:

	2014	2013
	(In Thousands)	
Shares of stock:		
Listed (see Note 22)	**₱29,668,445**	₱23,360,756
Unlisted	**3,293**	8,318
	29,671,738	23,369,074
Less noncurrent portion	**28,994,983**	23,369,074
	₱676,755	₱–

- Listed shares of stock pertain to investments in publicly-listed companies. A portion of investments amounting to nil and ₱3,594 million as at December 31, 2014 and 2013, respectively, were pledged as collateral for a portion of the Company's long-term loans (see Note 20).

- Unlisted shares of stock pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Company intends to hold them for the long term.

Dividend income from investments in listed and unlisted shares of stock amounted to ₱334 million, ₱401 million and ₱145 million in 2014, 2013 and 2012, respectively.

Interest income earned from investment in corporate notes amounted to nil, ₱34 million and ₱68 million in 2014, 2013 and 2012, respectively.

In 2014, 2013 and 2012, shares with acquisition cost of ₱2 million, ₱101 million and ₱124 million were sold resulting to a realized gain, included in "Others - net" account in the consolidated statements of income, amounting to ₱3 million, ₱285 million and ₱158 million, respectively.

The movements in the "Net unrealized gain on AFS investments" are as follows:

	2014	2013
	(In Thousands)	
At beginning of the year	**₱19,958,330**	₱19,781,021
Unrealized gain due to changes in fair value	**5,949,853**	462,438
Transferred to profit or loss -		
Realized gain from sale of AFS investments	**(2,743)**	(285,129)
At end of the year	**₱25,905,440**	₱19,958,330

14. **Prepaid Expenses and Other Current Assets**

This account consists of:

	2014	2013
	(In Thousands)	
Advances and deposits	**₱4,972,188**	₱4,034,093
Input and creditable withholding taxes	**3,203,920**	3,235,635
Prepaid taxes and other prepayments	**1,948,049**	1,845,150
Cash in escrow (see Note 22)	**667,778**	439,119
Supplies and inventories	**323,285**	271,045
Advances for project development	**16,467**	88,615
Others	**137,843**	22,463
	₱11,269,530	₱9,936,120

- Advances pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. Deposits include advance payments for land acquisition amounting to ₱422 million and ₱809 million as at December 31, 2014 and 2013, respectively. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent amounting to ₱238 million and ₱64 million as of December 31, 2014 and 2013, respectively, as required by the Housing and Land Use Regulatory Board (HLURB) in connection with the SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account.

  Also included in cash in escrow are deposits made in 2014 and 2013 payments of liability arising from acquisition of land amounting to ₱430 million and ₱375 million as of December 31, 2014 and 2013, respectively.

  Interest income earned from the cash in escrow amounted to ₱7 million, ₱5 million and ₱84 million in 2014, 2013 and 2012, respectively (see Note 24).

15. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2012	₱269,218	₱1,054,730	₱94,199	₱97,807	₱932,336	₱31,333	₱2,479,623
Additions	2,156	240,919	48,928	3,978	144,909	–	440,890
Disposals	–	(70,491)	(3)	(2,621)	(9,028)	–	(82,143)
Reclassifications	(503)	20,571	116	(165)	(3,007)	(31,333)	(14,321)
Balance at December 31, 2013	270,871	1,245,729	143,240	98,999	1,065,210	–	2,824,049
Additions	609	45,537	47,905	12,881	115,600	7,827	230,359
Disposals/retirements	–	(92,576)	(6,295)	(1,443)	(24,529)	–	(124,843)
Reclassifications	(54,163)	1,113,654	52,641	44,272	(19,421)	–	1,136,983
Balance at December 31, 2014	₱217,317	₱2,312,344	₱237,491	₱154,709	₱1,136,860	₱7,827	₱4,066,548
Accumulated Depreciation and Amortization							
Balance at December 31, 2012	₱94,431	₱394,989	₱37,746	₱48,627	₱306,764	₱–	₱882,557
Depreciation and amortization (see Note 23)	11,530	162,761	42,429	6,168	159,206	–	382,094
Disposals/retirements	–	(13,061)	(1)	(950)	(2,639)	–	(16,651)
Reclassifications	(29)	(1,999)	(97)	(13)	(706)	–	(2,844)
Balance at December 31, 2013	105,932	542,690	80,077	53,832	462,625	–	1,245,156
Depreciation and amortization (see Note 23)	23	211,202	67,506	13,878	184,817	–	477,426
Disposals/retirements	–	(39,323)	(3,343)	(1,325)	(8,509)	–	(52,500)
Reclassifications	(105,932)	192,179	13,346	14,132	24,354	–	138,079
Balance at December 31, 2014	₱23	₱906,748	₱157,586	₱80,517	₱663,287	₱–	₱1,808,161
Net Book Value							
As at December 31, 2013	₱164,939	₱703,039	₱63,163	₱45,167	₱602,585	₱–	₱1,578,893
As at December 31, 2014	**217,294**	**1,405,596**	**79,905**	**74,192**	**473,573**	**7,827**	**2,258,387**

As at December 31, 2014 and 2013, the carrying amount of fully depreciated property and equipment still in use amounted to ₱159 million and ₱82 million, respectively.

16. Investment Properties

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2012	₱34,679,375	₱110,369,581	₱21,600,843	₱16,674,860	₱183,324,659
Additions	5,390,076	7,107,692	1,497,287	12,828,715	26,823,770
Reclassifications	69,532	6,732,386	519,121	(6,731,378)	589,661
Translation adjustment	406,331	1,706,129	206,854	587,069	2,906,383
Balance as at December 31, 2013	40,545,314	125,915,788	23,824,105	23,359,266	213,644,473
Additions	10,104,016	8,054,234	1,719,211	17,379,564	37,257,025
Reclassifications	42,399	(1,135,278)	(452,511)	(1,966,846)	(3,512,236)
Translation adjustment	(107,095)	(299,725)	(37,595)	(155,709)	(600,124)
Disposals	–	(145,147)	(46,462)	–	(191,609)
Balance as at December 31, 2014	₱50,584,634	₱132,389,872	₱25,006,748	₱38,616,275	₱246,597,529
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2012	₱990,821	₱23,794,873	₱10,684,676	₱–	₱35,470,370
Depreciation and amortization (see Note 23)	157,742	3,744,099	1,697,005	–	5,598,846
Reclassifications	29	521	380	–	930
Translation adjustment	47,656	783,816	76,446	–	907,918
Balance as at December 31, 2013	1,196,248	28,323,309	12,458,507	–	41,978,064
Depreciation and amortization (see Note 23)	292,576	3,912,221	1,897,558	–	6,102,355
Reclassifications	220,565	(3,505,401)	(227,400)	–	(3,512,236)
Translation adjustment	(9,031)	(43,422)	(15,047)	–	(67,500)
Disposals	–	(49,968)	(33,852)	–	(83,820)
Balance as at December 31, 2014	₱1,700,358	₱28,636,739	₱14,079,766	₱–	₱44,416,863
Net Book Value					
Balance as at December 31, 2013	₱39,349,066	₱97,592,479	₱11,365,598	₱23,359,266	₱171,666,409
As at December 31, 2014	**48,884,276**	**103,753,133**	**10,926,982**	**38,616,275**	**202,180,666**

Included under "Land and Improvements and Land Use Rights" account are the 212,119 square meters of real estate properties with a carrying value of ₱488 million and ₱494 million as at December 31, 2014 and 2013, respectively, and a fair value of ₱13,531 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱5,001 million and with estimated fair value of ₱20,109 million as at December 31, 2013, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Consolidated rent income from investment properties amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, respectively. Consolidated direct costs and expenses from investment properties which generate income amounted to ₱20,006 million, ₱17,075 million and ₱15,088 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱30,870 million and ₱18,279 million, and landbanking and commercial building constructions amounting to ₱7,746 million and ₱5,080 million as at December 31, 2014 and 2013, respectively.

In 2014, shopping mall complex under construction mainly pertains to cost of land amounting to ₱6,576 million and costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

In 2013, shopping mall complex under construction mainly pertains to cost of land amounting to ₱2,149 million and 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.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱81,977 million and ₱82,058 million as at December 31, 2014 and 2013, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱17,272 million and ₱28,857 million as at December 31, 2014 and 2013, respectively (see Note 19).

Interest capitalized to the construction of investment properties amounted to ₱51 million, ₱77 million and ₱130 million in 2014, 2013 and 2012, respectively. Capitalization rates used range from 4.61% to 5.99%, 5.83% to 7.20% and 5.75% to 6.13% for the years ended December 31, 2014, 2013 and 2012, respectively.

The fair value of investment properties amounted to ₱540,040 million as at February 28, 2013 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at December 31, 2014 and 2013, the Company's management believes that there were no conditions present in 2014 and 2013 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

17. **Other Noncurrent Assets**

This account consists of:

	2014	2013
	(In Thousands)	
Receivables from sale of real estate - net of current portion (see Note 10)	**₱8,341,583**	₱10,277,336
Investments in associate and joint ventures	**6,050,884**	5,756,294
Bonds and deposits	**4,228,568**	4,964,606
Time deposits (see Note 22)	**1,956,800**	–
Advances for project development (see Note 22)	**48,270**	3,607,169
Others (see Notes 14, 22 and 25)	**3,614,364**	4,669,305
	₱24,240,469	₱29,274,710

Investment in Associate and Joint Ventures
On January 7, 2013, SMPH entered into Shareholders Agreement and Share Purchase Agreement for the acquisition of 51% ownership interest in the following companies (collectively, Waltermart):

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

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

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

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

Below are the financial information of the Company's interests in all individually immaterial associate and joint ventures that are accounted for using the equity method:

Associate
The carrying value of investment in associate amounted to ₱749 million and ₱576 million as at December 31, 2014 and 2013, respectively. This consists of the acquisition cost amounting to ₱276 million and ₱281 million as at December 31, 2014 and 2013, respectively, and cumulative equity in net earnings amounting to ₱473 million and ₱295 million as at December 31, 2014 and 2013, respectively. The share in profit and total comprehensive income amounted to ₱183 million and ₱295 million for the years ended December 31, 2014 and 2013, respectively.

Joint Ventures
The aggregate carrying values of investments in joint ventures amounted to ₱5,302 million and ₱5,180 million as at December 31, 2014 and 2013, respectively. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱187 million and ₱65 million as at December 31, 2014 and 2013, respectively. The aggregate share in profit and total comprehensive income amounted to ₱122 million and ₱65 million for the years ended December 31, 2014 and 2013, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associate and joint ventures as at December 31, 2014 and 2013.

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

Time Deposits
Time deposits amounting to US$44.4 million with various maturities over one year, with peso equivalent of ₱1,957 million as of December 31, 2014 were used as collateral for use of credit lines obtained by the Company from Directors, Officers, Stockholders, and Related Interests banks. Interest income earned amounted to ₱45 million. (see Note 24)

18. **Loans Payable**

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱2,670 million and ₱3,250 million as at December 31, 2014 and 2013, respectively, with due dates of less than one year. These loans bear interest rates ranging from 2.00% to 4.15% in 2014 and 2.25% to 4.00% in 2013.

Interest expense incurred from loans payable amounted to ₱106 million, ₱275 million and ₱105 million in 2014, 2013 and 2012, respectively (see Note 24).

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
	(In Thousands)	
Trade:		
Third parties (see Note 16)	**₱18,893,293**	₱16,533,994
Related parties (see Note 22)	**30,281**	55,550
Accrued operating expenses:		
Third parties	**4,392,748**	4,583,840
Related parties (see Note 22)	**677,047**	1,222,079
Liability for purchased land	**4,774,116**	5,262,432
Customers' deposits	**2,519,661**	3,575,836
Nontrade	**1,018,539**	429,171
Payable to government agencies	**616,300**	528,374
Accrued interest (see Note 22)	**591,056**	535,949
Deferred output VAT	**210,778**	834,520
Due to related parties (see Note 22)	**147,432**	9,552,978
Others	**3,678,423**	3,301,302
	37,549,674	46,416,025
Less noncurrent portion of liability for purchased land	**1,170,855**	1,117,809
	₱36,378,819	₱45,298,216

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- The terms and conditions relating to due to related parties are further discussed in Note 22.
- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial year. Accrued operating expenses - third parties consist of:

	2014	2013
	(In Thousands)	
Utilities	**₱3,762,036**	₱3,689,105
Marketing and advertising	**424,155**	724,956
Others	**206,557**	169,779
	₱4,392,748	₱4,583,840

- Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue.
- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial year.

20. **Long-term Debt**

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance 2014	2013
						(In Thousands)
Parent Company						
U.S. dollar-denominated loans:						
Five-year term loans	May 6, 2011 – September 12, 2014	March 21, 2016 – April 14, 2019	London Interbank Offered Rate (LIBOR) + spread; semi-annual	Unsecured	**₱43,825,600**	₱34,184,150
Five-year, three-year and two-year bilateral loans	November 30, 2010 – December 7, 2012	November 30, 2015 – August 30, 2017	LIBOR + spread; semi-annual	Unsecured	**4,472,000**	4,439,500
Other U.S. dollar loans	November 20, 2013	November 20, 2018	LIBOR + spread; semi-annual	Unsecured	**1,118,000**	1,109,875
Philippine peso-denominated loans:						
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 – September 1, 2024	5.10%-5.74%; quarterly	Unsecured	**20,000,000**	–
Five-year and ten-year floating and fixed rate notes	June 19, 2012	June 20, 2017 - June 19, 2022	PDST-F + margin; 6.22%-6.81%; quarterly	Unsecured	**7,301,000**	7,375,500
Five-year, seven-year and ten-year corporate notes	December 20, 2010 - June 13, 2011	December 21, 2015 – December 20, 2020	PDST-F + margin; Fixed 5.79%-6.65%; quarterly	Unsecured	**6,528,000**	6,596,000
Five-year floating rate notes	March 18, 2011 – June 17, 2011	March 19, 2016 - June 18, 2016	PDST-F + margin; quarterly	Unsecured	**4,850,000**	4,900,000
Five-year, seven-year and ten-year fixed and floating rate notes	January 12, 2012	January 13, 2017 – January 12, 2022	PDST-F + margin; 5.86%-6.10%; quarterly	Unsecured	**4,272,800**	4,316,400
Ten-year corporate notes	April 14, 2009	April 14, 2019	10.11%; quarterly	Unsecured	**–**	1,100,000
Five-year term loans	September 10, 2009 – April 13, 2010	September 10, 2014 – April 13, 2015	5.00%-5.69%; quarterly	Secured	**–**	1,600,000
Other bank loans	August 15, 2006 – June 29, 2010	October 16, 2014 – August 15, 2016	PDST-F + margin; 9.75%; semi-annual and quarterly	Unsecured	**1,985,280**	6,993,460
Subsidiaries						
Philippine peso-denominated loans:						
Fixed rate term loans	December 27, 2012 – December 29, 2014	December 23, 2015 – June 25, 2023	4.00%-5.88%; semi-annual and quarterly	Unsecured	**23,323,000**	19,390,000
Fixed rate corporate notes	June 3, 2013 – June 28, 2014	June 3, 2020 – June 3, 2023	5.25%-5.88%; semi-annual	Unsecured	**8,691,800**	8,200,000
Five-year floating rate notes	November 28, 2014	November 28, 2019	PDST-F + margin; quarterly	Unsecured	**800,000**	–
Five-year bilateral loans	February 2, 2010 – October 24, 2011	February 2, 2015 – October 24, 2016	PDST-F + margin; 5.00%; quarterly	Unsecured	**538,800**	617,600
China yuan renminbi-denominated loans:						
Five-year loan	August 26, 2009 – August 27, 2010	July 14, 2014 – August 4, 2015	Central Bank of China (CBC) rate less 10%; quarterly	Secured	**–**	2,235,771
Three-year loan	March 28, 2011	March 27, 2014	CBC rate less 5%;; quarterly	Secured	**–**	961,827
					127,706,280	104,020,083
Less debt issue cost					**1,093,253**	957,093
					126,613,027	103,062,990
Less current portion					**11,006,880**	7,387,260
					₱115,606,147	₱95,675,730

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This includes the following:

- A US$300 million syndicated loan obtained on various dates in 2013. The loans bear an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

- A US$200 million syndicated loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036 million with a fixed interest rate equivalent to 5.1000% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362 million with a fixed interest rate equivalent to 5.2006% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602 million with a fixed interest rate equivalent to 5.7417% per annum due on September 1, 2024.

Philippine Peso-denominated Five-Year Term Loans

- This represents a ₱1,600 million loan obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 5.69%. Portion of the loans is collateralized by AFS investments (see Note 13). The Company prepaid the loans amounting to ₱1,582 million, ₱9 million and ₱9 million in 2014, 2013 and 2012, respectively (see Note 28).

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loans
This consists of the following:

- A ¥350 million loan obtained on August 26, 2009 to finance the construction of shopping malls. The loan is payable in semi-annual installments until July 2014. The loan has a floating rate with 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 2014 and 2013 (see Notes 16 and 28).

- A ¥150 million loan obtained on August 27, 2010 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made in 2013 and already prepaid in June 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 2014 and 2013 (see Notes 16 and 28).

China Yuan Renminbi-denominated Three-Year Loan
A ¥187 million out of ¥250 million loan facility obtained on March 28, 2011 to finance the construction of shopping malls. The Company prepaid the loans amounting to ¥132 million in 2014, ¥37 million in 2013 and ¥18 million in 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5%. The loan bears interest rate of 6.20% in 2014 and 2013 (see Notes 16 and 28).

The China yuan renminbi-denominated loans are secured by the investment properties in China (see Note 16).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 0.50:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.70:0.25 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control. As at December 31, 2014 and 2013, the Company is in compliance with the terms of its loan covenants.

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

Debt Issue Cost
The movements in unamortized debt issue cost of the Company follow:

	2014	**2013**
	(In Thousands)	
Balance at beginning of year	**₱957,093**	₱506,636
Additions	**450,804**	775,938
Amortization	**(314,644)**	(325,481)
Balance at end of year	**₱1,093,253**	₱957,093

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

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2015	₱11,006,880	(₱343,107)	₱10,663,773
2016	24,101,200	(266,708)	23,834,492
2017	8,664,300	(232,462)	8,431,838
2018	28,064,600	(128,307)	27,936,293
2019	14,292,600	(68,972)	14,223,628
2020	21,541,060	(24,130)	21,516,930
2021	6,930,820	(15,501)	6,915,319
2022	6,083,260	(7,739)	6,075,521
2023	4,419,860	(4,369)	4,415,491
2024	2,601,700	(1,958)	2,599,742
	₱127,706,280	(₱1,093,253)	₱126,613,027

21. **Equity**

Capital Stock

On May 31, 2013, the BOD approved the increase in the authorized capital stock of the Company by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation. On October 10, 2013, the SEC approved the Company's application for increase in its authorized capital stock.

As at December 31, 2014 and 2013, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued.

The movement of the outstanding shares of the Company are as follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**27,817,554**	27,808,916
Acquisition of non-controlling interest	**1,583**	8,638
Sale of treasury shares	**1,060,000**	–
Balance at end of year	**28,879,137**	27,817,554

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

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

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50
October 10, 2013	20,000,000,000	15,773,765,315	19.50

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,514 and 2,544 as at December 31, 2014 and 2013, respectively.

Additional Paid-in Capital - Net
Following represents the nature of the consolidated "Additional paid-in capital - net":

	2014	2013
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,177,063**	₱16,155,292
Net equity adjustments from common control business combinations (see Note 6)	**9,068,132**	9,068,132
Arising from acquisition of non-controlling interests	**(2,943,001)**	(2,919,988)
As presented in the consolidated balance sheets	**₱39,302,194**	₱22,303,436

On November 27, 2014, the Parent Company has undergone an international placement of its treasury shares to raise capital to finance capital expenditures, general corporate purposes, and potential acquisitions. The Parent Company engaged into a Placement Agreement with J. P. Morgan Securities Plc and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners") on November 27, 2014. Based on the Placement Agreement, the Parent Company sold its 1,060 million shares held in treasury (the "Sale Shares') with a par value of ₱1 per share at ₱17.00 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

The Company was able to sell through the Joint Bookrunners the total Sale Shares of 1,060 million SMPH common shares. The proceeds of ₱18,020 million, net of transaction costs of ₱374 million, add up to the capital of the Parent Company.

Retained Earnings
In 2014, the BOD approved the declaration of cash dividend of ₱0.19 per share or ₱5,286 million to stockholders of record as of May 15, 2014, ₱9 million of which was received by SMDC. This was paid on June 10, 2014. In 2013, the BOD approved the declaration of cash dividend of ₱0.27 per share or ₱4,691 million. In 2012, the BOD approved the declaration of cash dividends of ₱0.29 per share or ₱4,031 million.

The BOD of SMPH previously approved the appropriation of retained earnings amounting to ₱20,000 million and ₱7,000 million, respectively, for future corporate expansion programs. As at December 31, 2014 and 2013, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million. Appropriated retained earnings also include appropriations for landbanking and commercial buildings construction scheduled from 2014 to 2017 amounting to ₱15,200 million.

In 2015, the Company expects to incur around ₱70,000 million for its capital expenditures in the Philippines and in China.

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱39,793 million and ₱32,308 million as at December 31, 2014 and 2013, respectively, representing the cost of shares held in treasury (₱3,356 million and ₱3,980 million as at December 31, 2014 and 2013, respectively) and accumulated equity in net earnings of SMPH subsidiaries totaling ₱36,437 million and ₱28,328 million as at December 31, 2014 and 2013, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries.

Treasury Stock
As at December 31, 2014 and 2013, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱3,356 million and ₱3,980 million, respectively. The movement of the treasury stock of the Company are as follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**5,394,370**	5,403,008
Acquisition of non-controlling interest	**(1,583)**	(8,638)
Sale of treasury shares	**(1,060,000)**	–
Balance at end of year	**4,332,787**	5,394,370

22. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties
There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2014 and 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash.

The significant related party transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2014	2013	2012	**2014**	2013	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱44,329**	₱115,048	₱113,641	–	–	30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable	–	–	–	**₱16,005**	₱4,424		
Sponsorship income	–	3,898	14,494	–	–	Noninterest-bearing	Unsecured; not impaired
Service income	**44,200**	53,040	62,028	–	–	Noninterest-bearing	Unsecured; not impaired
Trade receivable - others	–	–	–	–	14,868		
Interest income	–	3,339	18,493	–	–	Interest-bearing at 6.17%	Unsecured; not impaired
Due from related parties	**488**	295	632,210	**783**	295	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	**87,276**	189,214	294,664	–	–	Noninterest-bearing	Unsecured
Accrued rent payable	–	–	–	**(1,561)**	(7,417)	Noninterest-bearing	Unsecured
Administrative expenses	–	9,578	3,922	–	–	Noninterest-bearing	Unsecured
Accounts payable - others	–	–	–	–	(3,561)	Noninterest-bearing	Unsecured
Due to related parties	–	2,199,471	262,835	**(31,459)**	(9,538,271)	On demand; noninterest-bearing	Unsecured
Trade payable	–	–	–	**(2,024)**	(3,440)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	**78,750**	69,205	Noninterest-bearing	Unsecured; not impaired
Dividend income	**1,007**	4,597	8,000	–	–	Noninterest-bearing	Unsecured
Interest expense	–	–	16,944	–	–	8.40% interest rate	Unsecured
Gain on disposal of land	–	–	199,500	–	–	–	–
Banking and Retail Group							
Cash and cash equivalents	**183,027,363**	5,289,545	4,588,985	**29,377,591**	21,912,510	Interest bearing based on prevailing rates	Unsecured; not impaired
Short-term investments	–	–	–	–	887,900	Interest bearing at fixed rate of 3.24%	Unsecured; not impaired
Investments held for trading	**65,416**	112,234	195,473	**659,676**	691,711	Noninterest-bearing	Unsecured; not impaired
Rent income	**11,379,209**	10,393,358	9,276,991	–	–	30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable	–	–	–	**2,278,800**	2,670,556		
Service income	**2,351**	–	–	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee income	**7,412**	–	–	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	–	–	–	**31,437**	–		
Deferred rent income	–	–		**(83,548)**	(103,567)	Noninterest bearing	Unsecured
Sponsorship income	–	3,508	19,919	–	–	Noninterest bearing	Unsecured; not impaired
Interest income	**238,595**	559,419	726,847	–	–	Interest at 5.6% per annum	Unsecured; not impaired
Accrued interest receivable	–	–	–	**104,836**	114,832	Noninterest-bearing	Unsecured; not impaired
Marketing fee income	–	28,463	11,842	–	–	Noninterest-bearing	Unsecured; not impaired
Trade receivables - others	–	–	–	–	28,463	12% -15% of selling price of lots sold	Unsecured; not impaired
Due from related parties	**7,261**	–	–	**8,907**	1,646	On demand; noninterest-bearing	Unsecured; not impaired

(Forward)

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2014	2013	2012	**2014**	2013	Terms	Conditions
			(In Thousands)				
Receivable financed	**₱5,122,763**	₱3,735,340	₱1,975,400	**₱3,382,669**	₱48,307	Without recourse	Unsecured
Time deposits	**1,957**	–	–	**1,957**	–		
Loans payable and long-term debt	**6,915,000**	15,006,500	446,833	**(1,230,000)**	(7,130,000)	Interest-bearing	Combination of secured and unsecured
Interest expense	**658,400**	363,738	245,875	–	–	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable				**(5,668)**	(1,868)	Noninterest-bearing	Unsecured
Rent expense	**288**	–	–	–	–	Noninterest-bearing	Unsecured
Other operating expenses	–	–	3,991	–	–	Noninterest-bearing	Unsecured
Trade payable	–	–	2,459	**(1,265)**	(23,336)	Noninterest-bearing	Unsecured
Due to related parties	**793**	–	–	**(793)**	–	Noninterest-bearing	Unsecured
Management fee expense	**2,135**	–	–	–	–	Noninterest-bearing	Unsecured
Accrued management fee	–	–	–	**(519)**	–	Noninterest-bearing	Unsecured
AFS investments	**52,886**	–	3,323,683	**11,843,233**	8,904,881	Noninterest-bearing	Unsecured; not impaired
Escrow fund	–	763,869	–	**667,778**	862,865	Interest bearing based on prevailing rates	Unsecured; not impaired
Tenants' deposits	–	–	660	–	–	Noninterest-bearing	Unsecured
Acquisition of land	–	–	165,988	–	(6,184)	Noninterest-bearing	Unsecured
Dividend income	**241,712**	240,037	74,500	–	–	Noninterest-bearing	Unsecured
Other Related Parties							
Service income	–	25,315	4,866	–	–	30 days; noninterest-bearing	Unsecured; not impaired
Service fee receivable				–	25,200		
Due from related parties	–	367,510	102,589	**356,184**	1,087,182	On demand; noninterest-bearing	Unsecured; not impaired
Management fee income	**10,912**	4,723	–	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable				**11,017**	4,723		
Trade receivable – others	–	11,716	–	–	11,716	Noninterest-bearing	Unsecured
Rent expense	**3,927**	–	–	–	–		
Due to related parties	**56,138**	(104,500)	119,304	**(115,180)**	(14,707)	Noninterest-bearing	Unsecured
Accrued expenses	–	352,434	286,153	**(573,192)**	(1,109,453)	Noninterest-bearing	Unsecured
Management fee expense	**1,110,626**	963,126	860,535	–	–	Noninterest-bearing	Unsecured
Accrued management fee				**(101,775)**	(105,209)	Noninterest-bearing	Unsecured
Administrative expenses	–	971	–	–	–	Noninterest-bearing	Unsecured
Accounts payable - others	–	–	–	–	(638)	Noninterest-bearing	Unsecured
Advances for project development	–	518,122	1,971,200	–	3,607,122	Noninterest-bearing	Unsecured; not impaired
Trade payable	–	–	–	**(26,992)**	(28,774)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	**3,602,136**	3,615,246	Noninterest-bearing	Unsecured; not impaired
Sponsorship income	–	7,406	–	–	–	Noninterest-bearing	Unsecured
Interest income	–	21,972	282	–	–	Noninterest-bearing	Unsecured
Dividend income	**14,769**	–	–	–	–		
Gain on disposal of land	–	33,314	–	–	–	–	–

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

Below are the nature of the Company's transactions with the related parties:

Rent
The Company have existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Management Fees
The Company pays management fees to Shopping Center Management Corporation, SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (affiliates) for the management of the office and mall premises.

Service Fees
The Company provides manpower and other services to affiliates.

Dividend Income
The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8, 9 and 13).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 18 and 20).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2014, 2013 and 2012 consist of short-term employee benefits amounting to ₱340 million, ₱260 million and ₱247 million, respectively, and post-employment benefits (pension benefits) amounting to ₱27 million, ₱27 million and ₱10 million, respectively.

23. Costs and Expenses

This account consists of:

	2014	2013	2012
		(In Thousands)	
Cost of real estate sold (see Notes 11 and 12)	**₱12,257,032**	₱11,920,739	₱13,975,766
Depreciation and amortization (see Notes 15 and 16)	**6,579,781**	5,980,940	5,126,801
Administrative (see Notes 22 and 25)	**6,707,326**	5,858,726	5,798,119
Marketing and selling expenses	**3,400,983**	3,232,536	2,929,161
Business taxes and licenses	**3,125,697**	2,748,088	2,367,654
Film rentals	**2,308,946**	2,041,830	1,877,919
Rent (see Notes 22 and 27)	**1,186,622**	1,294,925	926,119
Management fees (see Notes 22 and 27)	**1,145,319**	1,050,548	892,458
Insurance	**418,581**	353,019	332,603
Others (see Note 10)	**1,423,274**	1,177,514	918,677
	₱38,553,561	₱35,658,865	₱35,145,277

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

24. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2014	2013	2012
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 7)	**₱259,576**	₱528,780	₱589,364
Short-term investments (see Note 8)	**15,527**	29,274	27,203
Investments held for trading (see Note 9)	**25,791**	28,310	43,068
Available-for-sale investments (see Note 13)	**–**	34,038	67,700
Time deposits (Note 17)	**44,612**	–	–
Others (see Notes 10 and 14)	**51,948**	71,911	190,054
	₱397,454	₱692,313	₱917,389
Interest expense on:			
Long-term debt (see Note 20)	**₱3,824,165**	₱3,218,400	₱2,933,757
Loans payable (see Note 18)	**105,742**	274,534	105,469
Others	**169,592**	193,669	25,599
	₱4,099,499	₱3,686,603	₱3,064,825

25. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2013.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2014	2013	2012
		(In Thousands)	
Current service cost	**₱72,808**	₱51,692	₱53,078
Curtailment	**(302)**	–	–
Net interest income	**(5,967)**	(2,010)	(589)
Net transitional liability and others	–	–	2,409
	₱66,539	₱49,682	₱54,898

Net Pension Liability (Asset) (included under "Other noncurrent assets" account)

	2014	2013
	(In Thousands)	
Defined benefit obligation	**₱215,462**	₱347,082
Fair value of plan assets	**(272,771)**	(421,502)
Effect of asset ceiling limit	**5,469**	7,773
Net pension asset	**(₱51,840)**	(₱66,647)

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2014	2013
	(In Thousands)	
Defined benefit obligation	**₱381,892**	₱14,665
Fair value of plan assets	**(273,355)**	(3,320)
Net pension liability	**₱108,537**	₱11,345

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱361,747**	₱346,052
Actuarial gain - changes in actuarial assumptions	–	(4,499)
Actuarial loss - changes in financial assumptions	**124,435**	(44,774)
Actuarial gain - changes in demographic assumptions	**(16,190)**	(2,542)
Actuarial loss - experience	**46,852**	5,976
Current service cost	**72,808**	51,692
Interest cost	**22,696**	21,479
Benefits paid from assets	**(4,579)**	(11,103)
Transfer to (from) the plan	**556**	(80)
Curtailment gain and others	**(10,971)**	(454)
Balance at end of year	**₱597,354**	₱361,747

The above present value of defined benefit obligation are broken down as follows:

	2014	2013
	(In Thousands)	
Related to pension asset	**₱215,462**	₱347,082
Related to pension liability	**381,892**	14,665
	₱597,354	₱361,747

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱424,822**	₱316,399
Contributions	**87,015**	82,015
Interest income	**29,143**	23,530
Benefits paid	**(4,579)**	(11,103)
Actuarial gains	**9,169**	21,508
Transfer to the plan and others	**556**	(7,527)
Balance at end of year	**₱546,126**	₱424,822

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

	2014	2013
	(In Thousands)	
Related to pension asset	**₱272,771**	₱421,502
Related to pension liability	**273,355**	3,320
	₱546,126	₱424,822

The changes in the effect of asset ceiling limit are as follows:

	2014	2013
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱7,773**	₱1,577
Remeasurement loss (gain)	**(2,784)**	6,155
Interest cost	**480**	41
	₱5,469	₱7,773

The carrying amounts and fair values of the plan assets as at December 31, 2014 and December 31, 2013 are as follows:

	2014		2013	
	Carrying mount	**Fair Value**	Carrying Amount	Fair Value
		In Thousands)		
Cash and cash equivalents	**₱30,262**	**₱30,262**	₱13,927	₱13,927
Investments in:				
Debt and other securities	**123,278**	**123,278**	77,035	77,035
Common trust funds	**213,852**	**213,852**	157,415	157,415
Equity securities	**17,208**	**17,208**	6,824	6,824
Government securities	**157,839**	**157,839**	162,799	162,799
Other financial assets	**3,687**	**3,687**	6,822	6,822
	₱546,126	**₱546,126**	₱424,822	₱424,822

- Cash and cash equivalents includes regular savings and time deposits;

- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 4.38% to 6.80% and have maturities ranging from 2019 to 2025;

- Investments in common trust funds pertain to unit investment trust fund;

- Investments in equity securities consist of listed and unlisted equity securities;

- Investments in government securities consist of retail treasury bonds which bear interest ranging from 3.50% to 10.69% and have maturities ranging from 2015 to 2037; and

- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the year ended December 31:

	2014	2013
	(In Thousands)	
Cash and cash equivalents	**₱30,262**	₱13,927
Interest income from cash and cash equivalents	**1,714**	534
Investments in common trust funds	**213,852**	157,415
Income from investments in common trust funds	**135,347**	1,040

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

	2014	2013	2012
Discount rate	**4.5%–5.6%**	4.7%–6.4%	6.0%–6.4%
Future salary increases	**3.0%–10.0%**	3.0%–10.0%	10.0%–11.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2014	2013	2012
		(In Thousands)	
Actuarial loss (gain)	**₱145,928**	(₱67,347)	₱32,190
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**(2,784)**	6,155	898
	₱143,144	(₱61,192)	₱33,088

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2014 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱36,826)
	(50)	40,535
Future salary increases	100	74,246
	(100)	(63,328)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2014:

Year	Amount
	(In Thousands)
2015	₱23,835
2016	30,589
2017-2018	78,705
2019-2025	525,945

The Company expects to contribute about ₱67 million to its defined benefit pension plan in 2015.

The weighted average duration of the defined benefit obligation is 20 years and 19 years as of December 31, 2014 and 2013, respectively.

26. Income Tax

The details of the Company's deferred tax assets and liabilities are as follows:

	2014	2013
	(In Thousands)	
Deferred tax assets:		
Unrealized foreign exchange loss and others	**₱438,231**	₱499,975
NOLCO	**302,679**	122,119
Accrued marketing and rent expenses	**181,792**	248,574
MCIT	**21,066**	106,243
Provision for doubtful accounts	**106,817**	134,177
Deferred rent income	**40,241**	44,071
Unamortized past service cost	**9,137**	4,823
	1,099,963	1,159,982

(Forward)

	2014	2013
	(In Thousands)	
Deferred tax liabilities:		
Undepreciated capitalized interest ,unrealized foreign exchange gains and others	**(₱1,499,054)**	(₱1,516,112)
Unrealized gross profit on sale of real estate	**(783,354)**	(760,303)
Pension asset	**(15,953)**	(16,483)
Others	**(85,623)**	(199,098)
	(2,383,984)	(2,491,996)
Net deferred tax liabilities	**(₱1,284,021)**	(₱1,332,014)

The net deferred tax assets and liabilities presented in the consolidated balance sheets as follows:

	2014	2013
	(In Thousands)	
Deferred tax assets	**₱650,153**	₱690,525
Deferred tax liabilities	**(1,934,174)**	(2,022,539)
	(₱1,284,021)	(₱1,332,014)

As at December 31, 2014 and 2013, unrecognized deferred tax assets amounted to ₱101 million and ₱93 million, respectively, bulk of which pertains to NOLCO of the hotels and convention centers segment.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2014	2013	2012
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associate	**(0.4)**	(0.1)	(6.2)
Availment of income tax holiday	**(3.2)**	(4.0)	(5.9)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.9)**	(1.5)	(1.4)
Nondeductible expenses	**(5.3)**	(5.2)	2.0
Effective tax rates	**20.2%**	19.2%	18.5%

27. **Lease Agreements**

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

Also, the Company's lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2014	2013
	(In Millions)	
Within one year	**₱1,224**	₱1,277
After one year but not more than five years	**4,180**	4,427
After more than five years	**637**	1,367
	₱6,041	₱7,071

Consolidated rent income amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

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

	2014	2013
	(In Millions)	
Within one year	**₱744**	₱735
After one year but not more than five years	**3,138**	3,261
After five years	**25,867**	27,330
Balance at end of year	**₱29,749**	₱31,326

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,187 million, ₱1,295 million and ₱926 million for the years ended December 31, 2014, 2013 and 2012, respectively.

28. **Financial Risk Management Objectives and Policies**

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

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).

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

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to cash flow interest rate risk are disclosed in Notes 7, 9 and 20.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2014 and 2013, after taking into account the effect of interest rate swaps, approximately 67% and 64%, respectively, of its long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 29).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2014 and 202013:

	2014								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
				(In Thousands)					
Fixed Rate									
Philippine peso-denominated corporate notes	**₱976,700**	**₱16,700**	**₱16,700**	**₱16,700**	**₱16,700**	**₱9,376,300**	**₱10,419,800**	**(₱51,841)**	**₱10,367,959**
Interest rate	**5.57%-6.65%**	**5.57%-6.65%**	**5.57%-6.65%**	**5.57%-6.65%**	**5.57%-6.65%**	**5.57%-6.65%**			
Philippine peso-denominated fixed rate notes	**₱2,073,600**	**₱5,463,600**	**₱2,485,100**	**₱4,559,900**	**₱3,662,200**	**₱11,270,400**	**29,514,800**	**(125,555)**	**29,389,245**
Interest rate	**4.72%-6.81%**	**4.32%-6.81%**	**4.00%-6.81%**	**4.90%-6.81%**	**5.00%-6.81%**	**5.00%-6.81%**			
Philippine peso-denominated fixed rate retail bonds	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,000,000**	**20,000,000**	**(166,362)**	**19,833,638**
Interest rate						**5.10%-5.74%**			
Other bank loans	**₱38,800**	**₱1,200,000**	**₱412,500**	**₱–**	**₱412,500**	**₱–**	**2,063,800**	**(2,549)**	**2,061,251**
Interest rate	**5.00%**	**9.75%**	**4.50%**		**5.07%-5.10%**				
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$270,000**	**$–**	**$500,000**	**$210,000**	**$–**	**43,825,600**	**(637,943)**	**43,187,657**
Interest rate		**LIBOR + spread**		**LIBOR + spread**	**LIBOR + spread**				
U.S. dollar-denominated bilateral loans	**$50,000**	**$–**	**$50,000**	**$–**	**$–**	**$–**	**4,472,000**	**(39,699)**	**4,432,301**
Interest rate	**LIBOR + spread**		**LIBOR + spread**						
Other U.S. dollar loans	**$–**	**$–**	**$–**	**$25,000**	**$–**	**$–**	**1,118,000**	**(17,654)**	**1,100,346**
Interest rate				**LIBOR + spread**					
Philippine peso-denominated corporate notes	**₱4,800,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**4,800,000**	**(10,749)**	**4,789,251**
Interest rate	**PDST-F+margin%**								
Philippine peso-denominated floating rate notes	**₱96,500**	**₱4,846,500**	**₱3,514,000**	**₱10,000**	**₱810,000**	**₱930,000**	**10,207,000**	**(39,134)**	**10,167,866**
	PDST-F+margin%	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**			
Philippine peso-denominated five-year bilateral loans	**₱–**	**₱500,000**	**₱–**	**₱–**	**₱–**	**₱–**	**500,000**	**(1,036)**	**498,964**
Interest rate		**PDST-F+margin%**							
Other bank loans	**₱785,280**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**785,280**	**(731)**	**784,549**
Interest rate	**PDST-F+margin%**								
							₱127,706,280	**(₱1,093,253)**	**₱126,613,027**

	2013								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
				(In Thousands)					
Fixed Rate									
Philippine peso-denominated corporate notes	₱18,000	₱968,000	₱8,000	₱8,000	₱8,000	₱10,036,000	₱11,046,000	(₱65,512)	₱10,980,488
Interest rate	5.79%-6.65%	5.79%-6.65%	6.65%	6.65%	6.65%	5.57%-10.11%			
Philippine peso-denominated fixed rate notes	₱81,800	₱2,219,400	₱5,409,800	₱1,925,300	₱9,568,100	₱7,391,600	26,596,000	(133,928)	26,462,072
Interest rate	5.86%-8.27%	4.72%-8.27%	4.32%-6.81%	4.00%-6.81%	4.77%-6.81%	5.88%-6.81%			
Other bank loans	₱1,381,750	₱218,250	₱1,200,000	₱–	₱–	₱–	2,800,000	(3,932)	2,796,068
Interest rate	5.00%-5.69%	5.00%	9.75%						
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$270,000	$–	$500,000	$–	34,184,150	(614,882)	33,569,268
Interest rate			LIBOR + spread		LIBOR + spread				
U.S. dollar-denominated bilateral loans	$–	$–	$–	$–	$25,000	$–	1,109,875	(5,994)	1,103,881
Interest rate					LIBOR + spread				
Other U.S. dollar loans	$–	$50,000	$–	$50,000	$–	$–	4,439,500	(55,869)	4,383,631
Interest rate		LIBOR + spread		LIBOR + spread					
Philippine peso-denominated corporate notes	₱50,000	₱4,800,000	₱–	₱–	₱–	₱–	4,850,000	(17,906)	4,832,094
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated floating rate notes	₱96,500	₱96,500	₱4,846,500	₱3,514,000	₱10,000	₱940,000	9,503,500	(49,722)	9,453,778
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Philippine peso-denominated five-year bilateral loans	₱–	₱–	₱500,000	₱–	₱–	₱–	500,000	(1,547)	498,453
Interest rate			PDST-F+margin%						
Other bank loans	₱3,008,180	₱2,785,280	₱–	₱–	₱–	₱–	5,793,460	(7,801)	5,785,659
Interest rate	PDST-F+margin%	PDST-F+margin%							
China yuan renminbi-denominated loans	¥375,168	¥60,900	¥–	¥–	¥–	¥–	3,197,598	–	3,197,598
Interest rate	5.76%-6.20%	5.76%							
							₱104,020,083	(₱957,093)	₱103,062,990

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2014	**100**	**(₱77,004)**
	50	**(38,502)**
	(100)	**₱77,004**
	(50)	**38,502**
2013	100	(₱108,914)
	50	(54,457)
	(100)	108,914
	(50)	54,457

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

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk arises mainly from its debt issuances which are denominated in U.S. dollars. To manage its foreign currency risk, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱33,948 million (US$759 million) and ₱34,184 million (US$764 million), respectively, as at December 31, 2014, and ₱24,463 million (US$551 million) and ₱24,586 million (US$554 million), respectively, as at December 31, 2013.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱44.72 to US$1.00 and ₱44.40 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2014 and 2013, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Thousands)
2014	**1.50**	**₱1,983**
	1.00	**1,322**
	(1.50)	**(1,983)**
	(1.00)	**(1,322)**
2013	1.50	₱1,043
	1.00	696
	(1.50)	(1,043)
	(1.00)	(696)

<u>Liquidity Risk</u>
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, short-term investments and investments held for trading and current AFS investments amounting to ₱35,245 million, nil, ₱968 million and ₱677 million, respectively, as at December 31, 2014, and ₱27,142 million, ₱888 million, ₱1,151 million and nil , respectively, as at December 31, 2013 (see Notes 7, 8, 9 and 13). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Loans payable	**₱–**	**₱2,670,000**	**₱–**	**₱–**	**₱2,670,000**
Accounts payable and other current liabilities*	**1,523,919**	**32,707,639**	**–**	**–**	**34,231,558**
Long-term debt (including current portion)	**–**	**15,261,124**	**88,712,795**	**45,231,699**	**149,205,618**
Derivative liabilities	**–**	**–**	**58,705**	**–**	**58,705**
Liability for purchased land - net of current portion	**–**	**–**	**1,170,855**	**–**	**1,170,855**
Tenants' deposits	**–**	**–**	**13,082,936**	**168,590**	**13,251,526**
Other noncurrent liabilities**	**–**	**–**	**3,208,432**	**–**	**3,208,432**
	₱1,523,919	**₱50,638,763**	**₱106,233,723**	**₱45,400,289**	**₱203,796,694**

	2013				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Loans payable	₱–	₱3,250,000	₱–	₱–	₱3,250,000
Accounts payable and other current liabilities*	6,818,290	37,117,032	–	–	43,935,322
Long-term debt (including current portion)	–	9,321,766	94,038,282	9,552,723	112,912,771
Derivative liabilities	–	–	159,974	–	159,974
Liability for purchased land - net of current portion	–	–	1,117,809	–	1,117,809
Tenants' deposits	–	–	10,082,397	166,395	10,248,792
Other noncurrent liabilities**	–	–	2,786,666	–	2,786,666
	₱6,818,290	₱49,688,798	₱108,185,128	₱9,719,118	₱174,411,334

* *Excluding nonfinancial liabilities amounting to ₱2,147 million and ₱1,363 million as at December 31, 2014 and 2013, respectively.*
** *Excluding nonfinancial liabilities amounting to ₱573 million and ₱469 million as at December 31, 2014 and 2013, respectively.*

<u>Credit Risk</u>
The Company trades only with recognized, creditworthy related and third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 29.

Since the Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The fair value of the respective units sold is sufficient to cover the credit risk arising from the "Receivable from sale of real estate." The Company has no other significant terms and conditions associated with the use of collateral.

As at December 31, 2014 and 2013, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 10). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

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

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

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

As at December 31, 2014 and 2013, the credit quality of the Company's financial assets is as follows:

	2014			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	**₱35,148,896**	**₱–**	**₱–**	**₱35,148,896**
Short-term investments	–	–	–	–
Receivables**	**15,352,165**	**6,604,078**	**8,726,652**	**30,682,895**
Cash in escrow (included under "Prepaid expenses and other current assets")	**667,778**	–	–	**667,778**
Real estate receivable - noncurrent (included under "Other noncurrent assets")	–	**8,341,583**	–	**8,341,583**
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	**967,511**	–	–	**967,511**
Derivative assets	**1,632,814**	–	–	**1,632,814**
AFS Investments				
Shares of stocks	**29,602,802**	**68,936**	–	**29,671,738**
	₱83,371,966	**₱15,014,597**	**₱8,726,652**	**₱107,113,215**

* *Excluding cash on hand amounting to ₱96 million*
** *Excluding nonfinancial assets amounting to ₱4 million*

	2013			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	₱27,076,823	₱–	₱–	₱27,076,823
Short-term investments	887,900	–	–	887,900
Receivables**	13,612,072	8,798,104	4,772,733	27,182,909
Cash in escrow (included under "Prepaid expenses and other current assets" and "Other noncurrent assets")	862,865	–	–	862,865
Real estate receivable - noncurrent (included under "Other noncurrent assets")	–	10,277,336	–	10,277,336
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	1,151,464	–	–	1,151,464
Derivative assets	1,778,810	–	–	1,778,810
AFS Investments				
Shares of stocks	23,303,431	65,643	–	23,369,074
	₱68,673,365	₱19,161,493	₱4,772,733	₱92,587,181

* *Excluding cash on hand amounting to ₱65 million*
** *Excluding nonfinancial assets amounting to ₱2 million*

Equity Price Risk

The Company's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2014 and 2013) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2014	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+9%**	**₱2,815**
	-9%	**(2,815)**

	2013	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+9%	₱1,765
	-9%	(1,765)

Capital Management
Capital includes equity attributable to the owners of the Parent.

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

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

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

As at December 31, 2014 and 2013, the Company's gearing ratios are as follows:

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

	2014	2013
	(In Thousands)	
Loans payable	**₱2,670,000**	₱3,250,000
Current portion of long-term debt	**11,006,880**	7,387,260
Long-term debt - net of current portion	**115,606,147**	95,675,730
Total interest-bearing debt (a)	**129,283,027**	106,312,990
Total equity attributable to equity holders of the parent	**199,087,690**	163,266,540
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱328,370,717**	₱269,579,530
Gearing ratio (a/b)	**39%**	39%

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

	2014	2013
	(In Thousands)	
Loans payable	**₱2,670,000**	₱3,250,000
Current portion of long-term debt	**11,006,880**	7,387,260
Long-term debt - net of current portion	**115,606,147**	95,675,730
Less cash and cash equivalents, short-term investments and investments held for trading	**(36,212,717)**	(29,180,870)
Total net interest-bearing debt (a)	**93,070,310**	77,132,120
Total equity attributable to equity holders of the parent	**199,087,690**	163,266,540
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱292,158,000**	₱240,398,660
Gearing ratio (a/b)	**32%**	32%

29. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values as at December 31:

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱967,511**	**₱967,511**	₱1,151,464	₱1,151,464
Derivative assets	**1,632,814**	**1,632,814**	1,778,810	1,778,810
	2,600,325	**2,600,325**	2,930,274	2,930,274
Loans and receivables -				
Noncurrent portion of receivable from sale of real estate	**8,341,583**	**8,255,073**	10,277,336	9,393,239
AFS investments -				
Listed shares of stocks	**29,668,445**	**29,668,445**	23,360,756	23,360,756
	₱40,610,353	**₱40,523,843**	₱36,568,366	₱35,684,269
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱58,705**	**₱58,705**	₱159,974	₱159,974
Other financial liabilities:				
Liability for purchased land - net of current portion	**1,170,855**	**1,158,712**	1,117,809	1,090,824
Long-term debt - net of current portion	**115,606,147**	**118,510,996**	95,675,730	96,254,926
Tenants' deposits	**13,251,526**	**12,972,502**	10,248,792	9,874,345
Other noncurrent liabilities*	**3,208,432**	**3,171,783**	2,786,666	2,679,120
	133,236,960	**135,813,993**	109,828,997	109,899,215
	₱133,295,665	**₱135,872,698**	₱109,988,971	₱110,059,189

**Excluding nonfinancial liabilities amounting to ₱573 million and ₱469 million as at December 31, 2014 and 2013, respectively.*

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

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

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

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 5.2% and 5.0% as at December 31, 2014 and 2013, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.54% to 5.32% and 1.39% to 4.76% as at December 31, 2014 and 2013, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.70% to 1.97% and 1.7% to 1.96% as at December 31, 2014 and 2013, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.69% to 5.22% and 1.93% to 3.52% as at December 31, 2014 and 2013, respectively.

The Company assessed that the carrying values of cash and cash equivalents, short-term investments, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments. For AFS investments related to unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;

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

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

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2014		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	**₱307,835**	**₱–**	**₱–**
Shares	**659,676**	**–**	**–**
Derivative assets	**–**	**1,632,814**	**–**
	967,511	**1,632,814**	**–**
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	**–**	**–**	**8,255,073**
AFS investments -			
Shares of stocks	**29,668,445**	**–**	**–**
	₱30,635,956	**₱1,632,814**	**₱8,255,073**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱58,705**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**–**	**–**	**1,158,712**
Long-term debt - net of current portion	**–**	**–**	**118,510,996**
Tenants' deposits	**–**	**–**	**12,972,502**
Other noncurrent liabilities*	**–**	**–**	**3,171,783**
	–	**–**	**135,813,993**
	₱–	**₱58,705**	**₱135,813,993**

**Excluding nonfinancial liabilities amounting to ₱573 million as at December 31, 2014.*

	2013		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	₱459,754	₱–	₱–
Shares	691,710	–	–
Derivative assets	–	1,778,810	–
	1,151,464	1,778,810	–
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	–	–	9,393,239
AFS investments -			
Shares of stocks	23,360,756	–	–
	₱24,512,220	₱1,778,810	₱9,393,239

(Forward)

	2013		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	₱–	₱159,974	₱–
Other financial liabilities:			
Liability for purchased land - net of current portion	–	–	1,090,824
Long-term debt - net of current portion	–	–	96,254,926
Tenants' deposits	–	–	9,874,345
Other noncurrent liabilities*	–	–	2,679,120
	–	–	109,899,215
	₱–	₱159,974	₱109,899,215

**Excluding nonfinancial liabilities amounting to ₱469 million as at December 31, 2013.*

During the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements

Derivative Financial Instruments
To address the Company's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, non-deliverable forwards and non-deliverable currency swaps.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 20). Details of the hedged loans are as follows:

Under the floating-to-fixed cross-currency swaps, it effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents (₱8,134 million and ₱6,165 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- 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.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the twelve-month period ended December 31, 2014.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	(In Thousands)			
Unsecured loan	US$200,000	₱8,944,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,708,000	6-month US LIBOR + 1.70%	March 25, 2018

The table below provides the details of SMPH's outstanding cross-currency swaps as at December 31, 2014:

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity	Fair Value Gain
	(In Thousands)						*(In Thousands)*
Floating-to-Fixed	US$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	₱711,066
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	243,897
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	210,575
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	219,438
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	217,356

Hedge Effectiveness Results
As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱1,602 million gain and ₱1,668 million as at December 31, 2014 and December 31, 2013, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2014 and 2013. Foreign currency translation loss arising from the hedged loan amounting to ₱114 million in 2014 and ₱1,239 million in 2013 was recognized in the consolidated statement of income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges
The table below shows information on the Company's interest rate swaps presented by maturity profile.

Year Obtained	Maturity	Interest Payment	Outstanding Notional Amount <1 Year	>1-<2 Years	>2-<5 Years	Receive	Pay	Aggregate Fair Value 2014	2013
			(In Thousands)					*(In Thousands)*	
Floating-to-Fixed									
2013	June 2015	Quarterly	₱174,720	–	–	3MPDST-F	3.65%	(₱941)	(₱4,511)
2013	June 2015	Quarterly	₱174,720	–	–	3MPDST-F	4.95%	(941)	(4,512)
2011	March 21, 2015	Semi-annual	$145,000	–	–	6 months LIBOR+margin%	2.91%–3.28%	(37,535)	(113,601)
2011	November 30, 2014	Semi-annual	$20,000	–	–	6 months LIBOR+margin%	3.53%	–	(10,431)
2010	November 30, 2015	Semi-annual	$30,000	–	–	6 months LIBOR+margin%	3.18%	(19,288)	(35,941)
Fixed-to-Floating									
2010	June 2015	Quarterly	₱785,280	–	–	5.44%	3MPDST-F	₱16,728	₱59,633
2010	June 2015	Quarterly	₱785,280	–	–	7.36%	3MPDST-F	13,754	59,800

Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 20). As at December 31, 2014 and 2013, these swaps have negative fair values of ₱2 million and ₱9 million, respectively.

In 2011, the SMPH entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swaps have aggregate negative fair value of ₱38 million and ₱114 million, respectively.

SMPH also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million loss in 2014.

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

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swap has a negative fair value of ₱19 million and ₱36 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). As at December 31, 2014 and 2013, the interest rate swaps has a positive fair value of ₱31 million and ₱119 million, respectively.

In 2009, SMPH entered into US$ interest rate swap agreements with an aggregate notional amount of US$25 million. Under these agreements, SMPH effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million gain in 2013.

Non-deliverable Currency Forwards and Swaps. In 2014 and 2013, the SMPH entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱14 million gain, ₱32 million gain and ₱67 million gain in 2014, 2013 and 2012, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱1,618,836**	(₱134,351)
Net changes in fair value during the year	**(293,786)**	1,648,143
Fair value of settled derivatives	**249,059**	105,044
Balance at end of year	**₱1,574,109**	₱1,618,836

In 2014, the net changes in fair value amounting to ₱294 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱263 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱66 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱35 million, which is included under "Others - net" account in the consolidated statements of income.

In 2013, the net changes in fair value amounting to ₱1,648 million include net of interest paid on interest rate swap and cross currency swap contracts amounting to ₱125 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱1,668 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱105 million, which is included under "Others - net" account in the consolidated statements of income.

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

	2014	2013
	(In Thousands)	
Derivative assets	**₱1,632,814**	₱1,778,810
Derivative liabilities	**(58,705)**	(159,974)
	₱1,574,109	₱1,618,836

30. **EPS Computation**

Basic/diluted EPS is computed as follows:

	2014	2013	2012
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱18,390,352**	₱16,274,820	₱16,202,777
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 21)	**5,291,243**	5,394,370	5,403,008
Weighted average number of common shares outstanding (b)	**27,875,057**	27,771,930	27,763,292
Earnings per share (a/b)	**₱0.660**	₱0.586	₱0.584

31. **Other Matters**

Bases Conversion and Development Authority (BCDA) Case
In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order (TRO) against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA.

On November 26, 2012, the Company filed with Supreme Court a Very Urgent Manifestation with Motion to Resolve the Company's Application for TRO and Preliminary Injuction related to the termination by the BCDA of the Competitive Challenge on the submitted unsolicited proposal for privatization and development of a 33.13 hectares Bonifacio South Property located in Fort Bonifacio, Taguig City.

On December 20, 2012, the Company filed with the Supreme Court Urgent Manifestation with Reiterative Motion to Resolve Application for TRO and Preliminary Injunction.

On January 9, 2013, the Supreme Court approved the Company's application and issued a TRO wherein BCDA or any of their representatives and or agents are enjoined from proceeding with the bidding process subject of said "Invitation to Bid", enforcing the Supplemental Notice No. 5 and in any way disposing of the subject lot which acts tend to render the Court's resolution of the petition ineffectual, until further orders from Supreme Court.

On January 14, 2013, the Company's counsel received the Motion for Reconsideration filed by the BCDA with the Supreme Court. The Company's counsel filed its Comment/Opposition to the Motion for Reconsideration on February 11, 2013.

On February 21, 2013, the Company's counsel received copies of the Comment-in-Intervention and Motion for Leave to file Comment-in-Intervention and to admit attached Comment-in-Intervention filed by the Department of National Defense and Armed Forces of the Philippines (DND-AFP). This remains pending as at February 23, 2015.

On March 20, 2013, the Supreme Court issued a resolution denying BCDA's urgent motion to dissolve TRO and noting the Company's Comment/Opposition to the Motion for Reconsideration. The TRO is made permanent in a Decision dated August 13, 2014.

On April 30, 2013, the Company filed its Opposition to the Comment-in-Intervention filed by the DND-AFP.

On May 14, 2013, BCDA and Casanova also filed a Motion for Leave to Refer the Case to the En Banc. The Company filed an Opposition to this Motion. The Supreme Court issued a resolution denying the Motion. BCDA filed a Motion for Reconsideration. The Company filed its Opposition and this remains pending as at February 23, 2015.

On June 5, 2013, BCDA and Casanova filed a Motion to Inhibit the Honorable Presiding Chairman. The Company filed an Opposition to this Motion and this remains pending as at February 23, 2015.

On August 13, 2014, the Supreme Court promulgated its Decision granting the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others.

On September 26, 2014, BCDA and Casanova filed a Motion for Reconsideration of the August 13, 2014 Decision with a Motion to Resolve BCDA and Casanova's Unresolved Motions. This remains pending as at February 23, 2015.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated February 23, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4751259, January 5, 2015, Makati City

February 23, 2015

SM PRIME HOLDINGS, INC. AND SUBSIDARIES
Financial Assets
As at December 31, 2014
(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet as at December 31, 2014	Income Received and Accrued
Loans and Receivables			
Temporary investments:			
China Construction Bank	Rmb53,235,300	PHP 383,640	
China Industrial Bank	Rmb58300000	PHP 420,139	
Bank of China	Rmb225700000	PHP 1,626,507	
China Construction Bank	Rmb209668700	PHP 1,510,977	
Banco de Oro (BDO)	PHP 27,071,864	PHP 27,071,864	
China Banking Corporation	PHP 875,525.06	PHP 875,525	
Others	PHP 353,947.91	PHP 353,948	
		32,242,600	PHP 259,576
Financial Assets at FVPL			
Investments held for trading:			
China Banking Corporation	12,995,989 shares	PHP 659,676	
Energy Development Corp.	PHP 10,000	PHP 10,488	
Ayala Corporation	PHP 5,000	PHP 5,198	
Bureau of Treasury RTB	PHP 50,000	PHP 52,787	
Travellers International Hotel	$5,000	PHP 239,362	
Derivative assets	PHP 1,632,814	PHP 1,632,814	
		2,600,325	25,791
Available-for-sale Investments			
SM Investments Corporation	97,403 shares	PHP 78,750	
BDO Unibank, Inc.	75,254,191 shares	PHP 8,255,385	
China Banking Corporation	76,337,193 shares	PHP 3,587,848	
Ayala Corporation	19,539,049 shares	PHP 13,472,174	
Prime Media Holdings, Inc.	500,000 shares	PHP 675	
Belle Corporation	735,553,561 shares	PHP 3,596,857	
Shang Properties, Inc.	189,550,548 shares	PHP 625,517	
Export & Industry Bank	7,829,000 shares	PHP 2,035	
Picop Resources, Inc.	40,000,000 shares	PHP 8,200	
Republic Glass Holding Corporation	15,140,000 shares	PHP 34,973	
Benguet Corporation	88,919 shares	PHP 750	
Tagaytay Midlands Golf Club, Inc.	11 shares	PHP 5,280	
Philippine Long Distance Telephone Company	254,570 shares	PHP 2,546	
Others		PHP 748	
		PHP 29,671,738	
		PHP 64,514,662	**PHP 285,367**

Schedule C

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As at December 31, 2014
(Amounts in Thousands except for Number of Shares)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
SM China Companies	₱20,214,109	₱14,185,348	(₱910,227)	₱-	₱-	₱33,489,230	₱33,489,230
Costa del Hamilo, Inc. and Subsidiary	838,753	151,645	(139,666)	-	-	850,732	850,732
Associated Development Corporation	196,313	4,300	(613)	-	-	200,000	200,000
SM Development Corporation and Subsidiaries	30,324	200,644	(220,773)	-	-	10,195	10,195
Summerhills Home Development Corp.	-	186,562	(186,562)	-	-	-	-
Highlands Prime, Inc.	8,960	-	(8,956)	-	-	4	4
Consolidated Prime Dev. Corp.	1,472,248	32,277	(519,725)	-	-	984,800	984,800
First Leisure Ventures Group, Inc.	771	1,016	(1,071)	-	-	716	716
Magenta Legacy, Inc.	2,625	3,326	(3,807)	-	-	2,144	2,144
Premier Central, Inc.	34,778	32,249	(67,027)	-	-	-	-
Premier Southern Corp.	2,380	776,062	(392,143)	-	-	386,299	386,299
Tagaytay Resort and Development Corporation		25	-			25	25
Prime Metroestate, Inc.	601	612	(601)	-	-	612	612
SM Arena Complex Corporation	122	-	(122)	-	-	-	-
Southernpoint Properties Corp.	73,663	354,936	(428,525)	-	-	74	74
SM Hotels and Conventions Corp. and Subsidiaries	22,422	198,355	(164,292)	-	-	56,485	56,485
CHAS Realty and Development Corporation and Subsidiaries	56	33,183	(146)	-	-	33,093	33,093
San Lazaro Holdings Corporation	-	1	-	-	-	1	1
	₱22,898,125	₱16,160,541	(₱3,044,256)	₱-	₱-	₱36,014,410	₱36,014,410

SM PRIME HOLDINGS, INC. AND SUBSIDARIES
Capital Stock
As at December 31, 2014
(Shares in Thousand)

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,879,137	17,646,954	4,008,811	7,223,372

Annex I

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

Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2014

Unappropriated retained earnings as at January 1, 2014		₱19,386,987,312
Less: Non-actual/unrealized income, net of applicable tax:		
Unrealized mark-to-market gain on derivatives	90,536,527	
Treasury stock	3,238,553,913	3,329,090,440
Unappropriated retained earnings as at January 1, 2014, as adjusted to available for dividend declaration		16,057,896,872
Net income closed to retained earnings in 2014	9,594,754,947	
Less: Non-actual/unrealized income, net of applicable tax:		
Unrealized marked-to-market gain on derivatives	8,945,700	
Net income actually earned in 2014		9,585,809,247
		25,643,706,119
Add (less): Cash dividends in 2014	(5,285,636,074)	
Treasury stocks reissuance during the year	624,847,922	
		(4,660,788,152)
Retained earnings as at December 31, 2014 available for dividend declaration		**₱20,982,917,967**

Annex II

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition**	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination**	Not Early Adopted		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements**	Not Early Adopted		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals**	Not Early Adopted		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts**	Not Early Adopted		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements**	Not Early Adopted		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets**	Not Early Adopted		
PFRS 9	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
	Amendments to PFRS 9: Hedge accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)**	Not Early Adopted		
	Amendments to PFRS 9 (2014 version)**	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	Not Early Adopted		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations**	Not Early Adopted		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 13: Portfolio Exception**	Not Early Adopted		
PFRS 14	Regulatory Deferral Accounts**	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization**	Not Early Adopted		
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**	Not Early Adopted		
	Amendment to PAS 16 and PAS 41: Bearer Plants**	Not Early Adopted		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution**	Not Early Adopted		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate**	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel**	Not Early Adopted		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements**	Not Early Adopted		
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'**	Not Early Adopted		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization**	Not Early Adopted		
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**	Not Early Adopted		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property**	Not Early Adopted		
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants**	Not Early Adopted		
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓

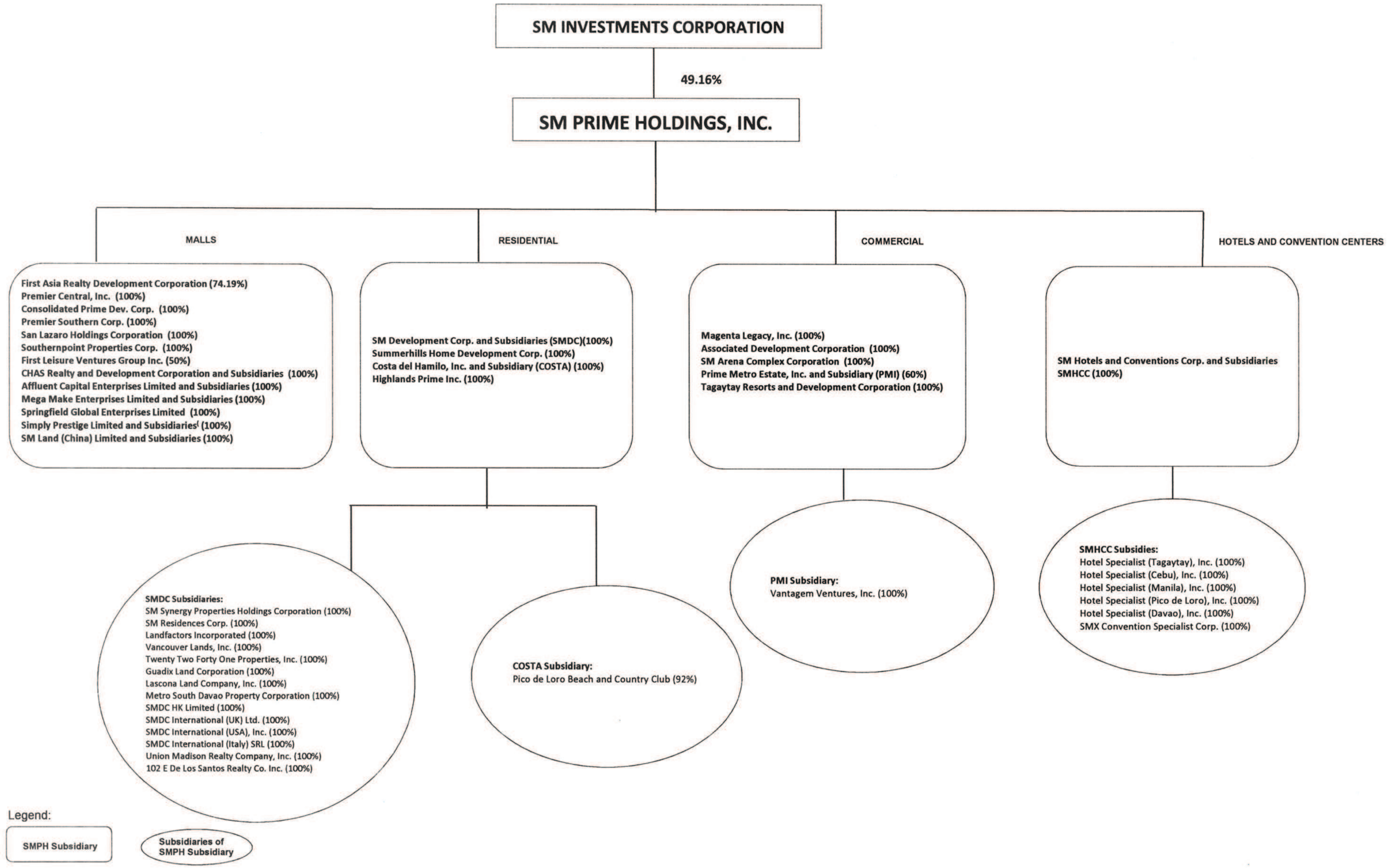
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2014		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Standards and interpretations which will become effective subsequent to December 31, 2014.*
*** Standards and amendments already approved by the Financial Reporting Standards Council (FRSC) but still for approval by the Board of Accountancy.*

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2014.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
As of December 31, 2014

Annex III



Note: % Refers to Effective Ownership

Annex IV

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Financial Ratios – Key Performance Indicators
As of December 31, 2014 and 2013

		Dec 31 2014	Dec 31 2013
i.	**Current ratio**		
	Total current assets / Total current liabilities	2.09	1.51
ii.	**Debt-to-equity ratio**		
	Total interest-bearing liabilities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities	0.39 : 0.61	0.39 : 0.61
	Net debt-to-equity ratio		
	Total interest-bearing liabilities less cash and cash equivalents and investment securities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities less cash and cash equivalents and investment securities	0.32 : 0.68	0.32: 0.68
iii.	**Asset to equity ratio**		
	Total assets / Total equity attributable to equity holders of the parent	1.95	2.06
iv.	**Earnings before interest, income taxes, depreciation and amortization (EBITDA) to interest expense**		
	EBITDA / Interest expense	8.26	8.12
	Debt to EBITDA		
	Total interest-bearing liabilities / EBITDA	3.82	3.55
v.	**Return on equity**		
	Net income attributable to equity holders of the parent / Total average equity attributable to equity holders of the parent	0.10	0.10
	Return on investment properties		
	Net income attributable to equity holders of the parent / Total average investment properties (excluding construction in progress)	0.12	0.12

Annex V

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Retail Bond
As of December 31, 2014

(1) Gross and Net Proceeds as Disclosed in the Final Prospectus

	₱15.0B Issue Size	₱10.0 B Over-Subscription Option	Total Proceeds (inclusive of Over-Subscription)
Gross Proceeds	₱15,000,000,000	₱10,000,000,000	₱25,000,000,000
Estimated Expenses	135,505,625	80,000,000	215,505,625
Net Proceeds	₱14,864,494,375	₱9,920,000,000	₱24,784,494,375

(2) Actual Gross and Net Proceeds

Gross Proceeds	₱20,000,000,000
Actual Expenses	201,644,258
Net Proceeds	₱19,798,355,742

(3) Each Expenditure Item where the Proceeds were Used

The net proceeds was used to finance capital expenditures of the following:

Projects	Amounts in million
SM City Seaside Cebu	₱5,313
Five E-com Center	3,598
Conrad Hotel Manila	2,496
Mall of Asia Complex Redevelopment	1,440
SM Cagayan de Oro 2	1,110
SM City Cabanatuan	833
SM City Bacolod	794
SM City San Mateo	783
SM City Angono	531
SM Butuan	459
SM City Lipa	437
SM City Puerto Princesa	429
SM Trece Martires	382
SM City Sta. Rosa	336
SM Savemore Tacloban	249
SM City North Edsa Expansion	217
SM Center Sangandaan	133
Three E-com Center	103
Park Inn by Radisson Clark	80
SM City Fairview	64
SM City Dagupan	11
TOTAL	**₱19,798**

(4) As of December 31, 2014, proceeds of the issue was fully used in financing capital expenditures for the expansion of malls, office and hotel projects.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year **2014**

2. Exact Name of Registrant as Specified in its Charter **SM PRIME HOLDINGS, INC.**

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

4. SEC Identification Number **AS094-000088** 5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number **003-058-789**

7. **(632) 831-1000**
   Issuer's Telephone number, including area code

8. ....
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	8

Actual number of Directors for the year	8

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)[1]	Elected when (Annual/ Special Meeting)	No. of years served as director
Henry Sy, Sr.	NED	None	Corazon I. Morando	1994	April 15, 2014	Annual	20
Henry T. Sy, Jr.	NED		Corazon I. Morando	1994	April 15, 2014	Annual	20
sJose L. Cuisia, Jr.	ID		Jeffrey C. Lim (no relation)	1994	April 15, 2014 (3)	Annual	20
Gregorio U. Kilayko	ID		Jeffrey C. Lim (no relation)	2008	April 15, 2014 (3)	Annual	6
Joselito H. Sibayan	ID		Jeffrey C. Lim (no relation)	2011	April 15, 2014 (3)	Annual	3
Hans T. Sy	ED		Corazon I. Morando	1994	April 15, 2014	Annual	20
Herbert T. Sy	NED		Corazon I. Morando	1994	April 15, 2014	Annual	20
Jorge T. Mendiola	NED		Corazon I. Morando	2012	April 15, 2014	Special	2

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

Treatment of All Shareholders and Respect for the Rights of Minority Shareholders

The Company's corporate governance framework and policies are embodied in its Revised Manual on Corporate Governance [July 30, 2014], which sets out the compliance system and plan of compliance. The Manual mandates that it shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholder rights and allow possibilities to seek redress for violation of their rights. It also asserts the rights of all shareholders, including holders of minority interests, as follows:

a. Voting right
b. Power of inspection
c. Right to information
d. Right to dividend
e. Appraisal right

In addition to the above rights, the Manual provides that minority shareholders shall be given the right to:

a. Propose the holding of a meeting and the items in the agenda of the meeting, provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice; and
b. Have access to any and all information relating to matters for which the Management is accountable, and to those relating to matters for which the Management shall include such information.

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

a. Adoption of corporate governance practices, strategies and plans with the end in view of increasing shareholder value.
b. Maintenance of complete and accurate records of all financial and business transactions in accordance with laws and regulations governing financial reporting and generally accepted accounting principles to provide the basis for the report it discloses to its shareholders regarding the Company's results of operations and financial position.

[1] Reckoned from the election immediately following January 2, 2012.

c. Ensuring an independent audit of its financial statements by external auditors.

Rights of Other Stakeholders

Complementing the Manual are a number of related policies, which deal with the rights of other stakeholders, such as the following:

Policy	Stakeholder	Description
Code of Ethics	Employees, Customers, Business Partners, Creditors, the Community	The Code of Ethics stresses integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the protection of company information assets, and promotion of corporate social responsibility. It further provides guidelines on the expected manner by which directors, officers, and employees should perform their duties and responsibilities and while dealing with creditors, customers, contractors, suppliers, regulators, and the public.
Conflict of Interest Policy	Employees, Business Partners	The Conflict of Interest Policy prohibits all directors and employees from engaging in transactions that result in conflicts of interest, and mandates them to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts and loans from the Company or its suppliers. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.
Guidelines on Acceptance of Gifts	Employees, Business Partners	The Guidelines on Acceptance of Gifts governs the solicitation and acceptance of gifts by directors, officers, and employees from any business partner to avoid conflict of interest scenarios.
Policy on Accountability, Integrity and Vigilance (PAIV)	Employees	PAIV tackles procedures for raising concerns and issues through the filing of an incident report by any director, officer, or employee on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any applicable law or regulation. The policy further states the responsibility of Management for conducting investigations and reporting findings.
Supplier Selection Policy	Suppliers	The Supplier Selection Policy requires adherence to the principles of healthy competition, equal opportunity and fair treatment of business partners. As such, selection of suppliers follows an open, competitive and non-discriminatory process. SM Prime implements a vendor enrolment process that screens qualifications of vendors/suppliers the Company will deal with. Such qualifications include legality of entity or business, adequacy of financial strength, compliance with SM Prime policies such as conflict of interest disclosure requirements and ethical standards, and support to SM Prime's environmental missions, health and safety culture.
Policy on Protection of Creditor's Rights	Creditors	The Policy on Protection of Creditors' Rights requires that the Company respect agreements with creditors, manage loans according to lending objectives, ensure timely repayment of loans and interests, thoroughly honor loan conditions as agreed, and competently operate the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.
Insider Trading Policy	Investors, the Government	The Insider Trading Policy restricts the disclosure of privileged information and participation in trading activities by directors, officers, and employees within a defined period before and after the disclosure of quarterly and annual financial results and any other material information.

Policy	Stakeholder	Description
Related Party Transactions Policy	Investors, the Government	The Related Party Transactions Policy reiterates the Company's commitment to transparency by practicing full disclosure of the details, nature, extent, and all other material information on transactions with related parties in the Company's financial statements and in the quarterly and annual reports to the SEC and PSE.

Disclosure Duties

In accordance with the Code of Ethics, the Company is committed to providing its stockholders and the public, timely and accurate information about the Company and its business. Accordingly, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate Corporate Governance section that features, among others, the Manual on Corporate Governance, Code of Ethics and other relevant policies, programs and important information. SM Prime also publishes a separate Sustainability Report, which highlights its policies and programs on corporate social responsibility and environmental sustainability, among others. Likewise, the Company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on the Company's various projects, as well as its financial and operational results. The presentation materials used in these briefings, as well as the Company's SEC and PSE reports and annual reports, may be viewed and downloaded from its website.

Board Responsibilities

The duties and responsibilities of the Board of Directors are laid down in the Revised Manual on Corporate Governance. Generally, the Board is responsible for overseeing the activities of Management in the implementation of strategies to achieve the vision and mission of the Company. These duties and responsibilities are discussed in detail in subsequent sections of this report.

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

The Board undertakes the review and approval of the Company's vision and mission at least once a year or more frequently if necessary.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[2]

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

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Henry Sy, Sr.	SM Investments Corporation Highlands Prime, Inc. BDO Unibank, Inc. China Banking Corporation	NED (Chairman) NED (Chairman) NED (Chairman Emeritus) NED (Honorary Chairman)
Gregorio U. Kilayko	Highlands Prime, Inc. Belle Corporation	Independent Independent
Hans T. Sy	China Banking Corporation Highlands Prime, Inc.	NED (Chairman) NED
Henry T. Sy, Jr.	SM Investments Corporation SM Development Corp. Highlands Prime, Inc. Pico de Loro Beach and Country Club	NED (Vice Chairman) ED (Chairman) ED (Vice Chairman) ED (Chairman)
Herbert T. Sy	China Banking Corporation	NED

[2] The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

(ii) Directorship in Other Listed Companies

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

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Jose L. Cuisia, Jr.	PHINMA Corporation Holcim Philippines, Inc. Manila Water Company, Inc.	NED NED Independent
Joselito H. Sibayan	Apex Mining Corporation	Independent

(iii) Relationship within the Company and its Group

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

Director's Name	Name of the Significant Shareholder	Description of the relationship
Henry Sy, Sr. (Chairman Emeritus) Henry T. Sy, Jr. (Chairman) Hans T. Sy (Executive Director) Herbert T. Sy (Non-Executive Director)	SM Investments Corporation (SMIC)	Henry T. Sy, Jr., Hans T. Sy and Herbert T. Sy are sons of Henry Sy, Sr. All hold direct beneficial ownership of SMIC. Henry Sy, Sr. is the Chairman and Henry Sy, Jr. is the Vice Chairman of SMIC and they have the power to vote the common shares of SMIC in SMPH.

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

In accordance with the Revised Manual on Corporate Governance, directors shall submit themselves to a low indicative limit on membership in other corporate Boards. In practice, however, the Company's non-executive and independent directors observe compliance with a maximum of five (5) board seats in publicly-listed companies simultaneously. On the other hand, executive directors hold up to two (2) board seats in other publicly-listed companies.[3]

(e) Shareholding in the Company

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

Name of Director	Number of Direct shares	Number of Indirect shares	% of Capital Stock
Henry Sy, Sr.	-	653,395,579	2.26
Jose L. Cuisia, Jr.	408,533	89,128	0
Henry T. Sy, Jr.	680,818,440	-	2.36
Hans T. Sy	661,002,569	24,160,943	2.37
Herbert T. Sy	661,472,045	4,917,477	2.31

[3] Changes in the Revised Manual on Corporate Governance have been initiated by the Company, subject to the approval of the Board of Directors. One such change is the inclusion of a maximum limits for board seats based on the current practice.

Name of Director	Number of Direct shares	Number of Indirect shares	% of Capital Stock
Gregorio U. Kilayko	12,500	190,080	0
Joselito H. Sibayan	66,375	-	0
Jorge T. Mendiola	1,000	1,364,167	0
TOTAL	**2,687,898,836**		**9.3**

2) Chairman and CEO

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

Yes **X** No

Identify the Chair and CEO:

Chairman of the Board	Mr. Henry T. Sy, Jr.
sCEO/President	Mr. Hans T. Sy

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman	Chief Executive Officer
Role	The Chairman acts as the presiding officer of the Board of Directors.	The Chief Executive Officer is the President of the Company, who oversees its operations.
Accountabilities	*(Art. IV Sec. 2 of By-Laws, as amended on April 23, 2007 and Revised Manual on Corporate Governance)* The Chairman of the Board of Directors shall have the following powers and duties: a. To preside at all meetings of stockholders and directors, and ensure that such meetings are held in accordance with the Corporation's By-Laws; b. To supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the advice and suggestions of the Board and Management; c. To sign all certificates, contracts, and other instruments on behalf of the Corporation, except as otherwise provided by law; d. To have general supervision and administration of the affairs of the Corporation; e. To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the	*(Art. IV Sec. 4 of By-Laws, as amended on April 23, 2007 and Revised Manual on Corporate Governance)* The President shall have the following powers and duties: a. To ensure that the administrative and operational policies of the Corporation are carried out under the direction and control of the Chairman of the Board and Chief Executive Officer; b. To have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers; 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 sign or cause the signatures of Certificates of Stock; e. To see that all orders and resolutions of the Board are carried into effect; f. To submit to the Board as soon as possible after the close of each fiscal year, and to the stockholders at the annual meeting, a complete report of the operations of the Corporation for the preceding year, and the state of its affairs; g. To report to the Board from time to time

	Chairman	Chief Executive Officer
	approval of the Board of Directors; f. To carry out the resolutions of the Board of Directors and to represent the corporation at all functions and proceedings; g. To maintain qualitative and timely lines of communication and information between the Board and Management; and h. To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.	all matters within its knowledge which the interest of the Corporation may require to be brought to their notice; h. To exercise such powers and duties and perform such duties commonly incident to and vested in the President of a Corporation and which the Board or Chairman of the Board may, from time to time assign to him. The President may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.
Deliverables	a. With the support from all the directors in the Board, we will continue to strive to enhance shareholder value. b. We will continue to strengthen the SM brand and build the business on the back of very positive economic outlook of the country. c. Study and pursue further improvement in corporate governance structures and practices following the guidelines in the ASEAN CG scorecard.	a. Ensure that the goals and objectives of the Group which were agreed upon during the Annual Strategic Planning are met. b. Stress further on our core values of innovation, hard work, efficient cost management, integrity across all business units. c. Update and align our Corporate Governance Manual towards best practice. d. Implementation of matters approved by the Board of Directors and shareholders.

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

The Company follows an established framework in succession planning, which involves the linking of strategic goals and workforce requirements, the analysis of continuity issues and gaps in the long-term, the identification of talent pools, and the development, implementation and monitoring of succession strategies based on the considerations identified. The Board, through the Nomination Committee, is responsible for assessing the leadership needs of the company to ensure the selection of qualified leaders that are diverse and a good fit for the organization's mission and goals, and have the necessary skills for the organization. In evaluating candidates, a high level of competency, experience and stature are used as standards. Furthermore, the maturity of character and ability to effectively assimilate into the SM culture are critical.

4) Other Executive, Non-Executive and Independent Directors

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

Yes. The Company's Revised Manual on Corporate Governance states that the Board shall *install a process of selection to ensure a mix of competent directors and officers*. Said mix considers diversity in gender, field expertise and career background. Accordingly, the Company's Board is composed of directors who have significant experience in the real estate, retail and financial industry sectors. In addition, the Company has since endeavored to have at least one female independent director in its Board.

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

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

In this regard, the Company's Chairman, who is a non-executive director, for instance, has significant experience in 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.

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

<table>
<tr><th></th><th>Executive</th><th>Non-Executive</th><th>Independent Director</th></tr>
<tr><td>Role</td><td>The Executive Director's general role is to ensure that aside from his responsibilities as a director, the day-to-day management of the company is sound and in line with the Company's objectives. He is also expected to serve as the medium between the Board and Management.</td><td>The Non-Executive Director is expected to perform all the duties and responsibilities of a director, as provided in the Revised Manual on Corporate Governance, and bring in new ideas during Board meetings.</td><td>The primary role of the Independent Director involves the exercise of independent judgment to provide balance and ensure impartial discussions during Board meetings.</td></tr>
<tr><td>Accountabilities</td><td colspan="3">Under the Revised Manual on Corporate Governance, it is the Board of Directors' general responsibility to:

• Install a process of selection to ensure a mix of competent directors and officers;
• Determine and regularly review the Corporation's purpose, vision and mission;
• In coordination with Management, determine and oversee the implementation of strategies to carry out the Corporation's objectives;
• Institute a plan of succession for key Management positions in the Corporation;
• Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
• Formulate a clear policy of accurate, timely and effective communications with the Corporation's stakeholders in the community in which it operates or are directly affected by its operations;
• Adopt a system of internal checks and balances;
• Identify key risk areas and key performance indicators and monitor these factors with due diligence;
• Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
• Formulate and implement policies to ensure the integrity of related party transactions between and among the Corporation and its related companies, business associates, major stockholders, officers, directors and their spouses, children, dependent siblings and parents, and of interlocking director relationships; and
• Establish and maintain an alternative dispute resolution system to settle conflicts between the Corporation and its stockholders or other third parties, including regulatory authorities; and
• Properly discharge the above functions, among others, by meeting regularly, and ensuring that all such meetings are duly minuted.

The Revised Manual on Corporate Governance also provides that a director shall also:

• Conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;
• Devote time and attention necessary to properly discharge his duties and responsibilities;
• Act judiciously;
• Exercise independent judgment;
• Have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies;</td></tr>
</table>

	Executive	Non-Executive	Independent Director
	• Observe confidentiality; • Ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment; and • Attend, before assumption of office and annually thereafter, a seminar on corporate governance conducted by a duly recognized private or government institute.		
Deliverables	• Further strengthen and streamline the support infrastructure of the organization to be more efficient and responsive to the needs of our growing business. • Promote the corporate governance and compliance culture in the Company. • Institutionalize the risk management and corporate social responsibility programs across the Group.	• Take lead in the review of the performance of Board Committees vis-à-vis their respective charters, and introduce refinements. • Pursue continuing education programs for directors.	• Oversee the updating of the Corporate Governance Manual. • Meet once a year, without the Executive Directors and Senior Management. • Meet the Auditor and External Auditors. • Pursue continuing education programs for directors.

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

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

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

The Company complies with the provisions of the SEC Memorandum Circular No. 9, Series of 2011, which states that independent directors shall can serve as such for five (5) consecutive years, followed by a cooling off period of two (2) years, and then another five (5) years thereafter.[4]

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

(a) Resignation/Death/Removal

None.

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

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

[4] Changes in the Revised Manual on Corporate Governance have been initiated by the Company, subject to the approval of the Board of Directors. One such change to align with leading corporate governance practice is the requirement for independent directors to have a maximum term limit of nine (9) years.

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors (ii) Non-Executive Directors	The Revised Manual on Corporate Governance requires the conduct of the following process/procedures in the nomination and election of directors: • The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of, and to vote at, the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director. • The Company may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors. • The Nomination Committee meets, pre-screens and checks the qualifications of, and deliberates on, all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Nomination Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the previous sections. Said list shall contain all the information about these nominees. Only nominees qualified by the Nomination Committee and whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. • Based on the Final List of Candidates, directors are elected by shareholders individually. The vote required for the election of directors is majority of the outstanding capital stock. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of	Per the Company's Revised Manual on Corporate Governance each director shall possess all of the following qualifications: • Ownership of at least one (1) share of stock of the Corporation; • At least twenty-one (21) years of age; • At least a college graduate or have sufficient experience in managing the business to substitute for such formal education; • Proven to possess integrity, probity and assiduousness; and • Proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Corporation; • In addition to the qualifications required by relevant laws, additional qualifications which may be provided by the Board, such as practical understanding of the Corporation's business, previous business experience, or membership in good standing in relevant industry, business or professional organizations.
(iii) Independent Directors		In addition to the qualifications of directors, an individual nominated and elected as an independent director should meet the following requirements: • He must be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment; and • He is not an officer, consultant, adviser, or employee of the Company.

Procedure	Process Adopted	Criteria
	shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. • To preserve the integrity of the election process, the Corporation shall employ the services of an external party to validate the voting results.	
b. Re-appointment		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-appointment.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		
(i) Executive Directors	The Nomination Committee assesses and evaluates all members of the Board of Directors based on the disqualification criteria set out in the Company's Revised Manual on Corporate Governance and other relevant laws.	The grounds for permanent disqualification are as follows: a) Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions; b) Any person finally found by the Securities Exchange Commission (the "Commission) or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas; c) Any person judicially declared to be insolvent; d) Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violates or misconduct listed in the foregoing paragraphs; and e) Conviction by final judgment of an offense
(ii) Non-Executive Directors		
(iii) Independent Directors		

Procedure	Process Adopted	Criteria
		punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment. f) No person shall qualify or be eligible for nomination or election to the Board if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged: i. If he is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of share of, any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is engaged in a business directly competitive to that of the Corporation or any of its subsidiaries or affiliates; ii. If he is an officer, manager, or controlling person of, or the owner or any member of his immediate family is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is an adverse party in any suit, action or proceeding (of whatever nature, whether civil, criminal, administrative, or judicial) by or against the Corporation, which has been actually filed or threatened, imminent or probably, to be filed; iii. If he is determined by the Board, in the exercise of its judgment in good faith, to be the nominee, officer, trustee, adviser, or legal counsel, of any individual set forth in (i) or (ii) hereof.
d. Temporary Disqualification		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	The Nomination Committee assesses and evaluates all members of the Board of Directors based on the disqualification criteria set out in the Revised Manual on Corporate Governance. A temporary disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	The grounds for temporary disqualification are as follows: a) Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its implementing rules and regulations. This disqualification shall be in effect as long as his refusal persists; b) Absence or non-participation for whatever reason/s for more than 50% of all meetings, both regular and special, of the Board during his incumbency, or any twelve (12) month period during his

Procedure	Process Adopted	Criteria
		incumbency, unless the absence is due to illness, death in the immediate family, or serious accident. This disqualification applies for purposes of the succeeding election; c) Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity; and d) Conviction that has not yet become final referred to in the grounds for disqualification of directors.
e. Removal		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their removal.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-instatement.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors	The Company applies the same process and criteria used in the temporary disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their suspension.	
(ii) Non-Executive Directors		
(iii) Independent Directors		

Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Henry Sy Jr.	100%
Henry Sy Jr.	100%
Jose L. Cuisia, Jr.	100%
Gregorio U. Kilayko	100%
Jorge T. Mendiola	100%
Herbert T. Sy	100%
Hans T. Sy	100%
Joselito H. Sibayan	100%

6) Orientation and Education Program

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

Under the Company's Revised Corporate Governance Manual, *"each elected director shall, before assumption of office and annually thereafter, be required to attend a seminar on corporate governance conducted by a duly recognized private or government institute."* The Manual also mandates the conduct of an orientation program for new directors, which focuses on the contributions that a director is expected to make, the roles and responsibilities of the Board and its committees, an overview of the Company's business, including its history, growth, direction, business units, core values of its founder, Mr. Henry Sy, Sr., and its Corporate Governance Framework, as well as other matters that will assist them in discharging their duties.

(b) State any in-house training and external courses attended by Directors and Senior Management[5] for the past three (3) years:

In 2014, the company's directors and senior management attended seminars on corporate governance conducted by the Institute of Corporate Directors and Sycip, Gorres, Velayo & Co. Details are in the next item.

In 2011 and 2012, directors underwent accredited in-house training and orientation programs in compliance with the Company's Revised Manual on Corporate Governance.

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

- Impact of New Tax Legislation (regularly conducted by SGV)
- ASEAN Corporate Governance Scorecard (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for Officers, Executives and Middle Management (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for New Employees (conducted by the Company's Corporate Governance Department)

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

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Henry T. Sy, Jr.	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Hans T. Sy	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Gregorio U. Kilayko	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Joselito H. Sibayan	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Jorge T. Mendiola	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Jeffrey C. Lim	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
John Nai Peng C. Ong	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Teresa Cecilia H. Reyes-Agsalud	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Davee M. Zuniga	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Anna Maria S. Garcia	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Jose Mari M. Banzon	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Shirley C. Ong	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Dave L. Rafael	February 24, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors

[5] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Herbert T. Sy	January 8, 2014	Exclusive Corporate Governance Training	Institute of Corporate Directors
Jose L. Cuisia, Jr.	July 28, 2014	Corporate Governance Seminar	Sycip, Gorres, Velayo & Co.

B. CODE OF BUSINESS CONDUCT & ETHICS

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

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	All directors and employees are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts and loans from the Company or its suppliers. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.		
(b) Conduct of Business and Fair Dealings	As mandated by the Code of Ethics, whether in selection of the countries and markets where the Company operates, hiring and promotion of employees, selection of suppliers and contractors, the company decides on the basis of merit and value to shareholders and does not discriminate on the basis of race, ethnicity, religion, or gender. All board members, officers, and employees are prohibited from practicing any form of discrimination or harassment in the workplace. This obligation to refrain from such behavior extends to contractors, vendors, suppliers, or visitors, to the extent that their conduct affects the work environment.		
(c) Receipt of gifts from third parties	SMPH prohibits the solicitation or acceptance of gifts in any form from any business partner. However, a director, officer or employee may accept corporate giveaways, tokens or promotional items, provided that the gift is voluntarily given and is of nominal value.		
(d) Compliance with Laws & Regulations	The Code of Ethics mandates that SMPH business dealings shall be compliant with all applicable laws in the countries, districts, and communities in which its companies operate.		
(e) Respect for Trade Secrets/Use of Non-public Information	Employees and officers are expected to safeguard Company information relating to SMPH. Financial reports, strategies, and plans shall not be disclosed unless authorized by the Company or required by law. Information regarding individuals working for the Company shall also be treated as private information and shall not be divulged to other parties except when required by legal processes or with the consent of the employee.		
(f) Use of Company Funds, Assets and Information			
(g) Employment & Labor Laws & Policies	Under the Company's Code of Ethics, all employees are selected, engaged and compensated based on qualification, merit and performance and are treated fairly and accorded respect and dignity. The Company adheres to all labor laws and policies and fosters its employee welfare program.		
(h) Disciplinary action	Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources Departments is responsible for monitoring compliance with the Code of Ethics. Appropriate disciplinary actions against violators are instituted by Management.		
(i) Whistle Blower	The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any of the Company's directors, officers or employees may accomplish an Incident Report on		

Business Conduct & Ethics	Directors	Senior Management	Employees
(j) Conflict Resolution	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.		

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

On a continuing basis, the Code of Ethics is cascaded through the Human Resources Department's New Hires Orientation Program. The program gives employees an overview of the Company's Corporate Governance Framework, policies, and various components. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics. In addition, copies of the Code of Ethics and Code of Conduct are also made available to all employees via an internal portal for easy access and reference.

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

The Company has established the Policy on Accountability, Integrity and Vigilance, which provides for the process and safeguards of elevating concerns to Management on suspected and actual violations of the Code of Ethics, other Company policies, or prevalent laws and regulations.

Under the policy, any director, officer or employee of SM Prime may accomplish an Incident Report on suspected or actual violations of the Code of Ethics or any other applicable law or regulation. Upon receipt of the Incident Report, Management is tasked to conduct an investigation on its merit, subject to due process, and institute applicable penalties and sanctions thereafter. A compilation of concluded investigations is reported to the Audit and Risk Management Committee.

4) Related Party Transactions

(a) Policies and Procedures

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

Related Party Transactions	Policies and Procedures
(1) Parent Company	Full disclosure of the details, nature, extent, and all other material information on transactions with related parties shall be observed in the Company's financial statements, and in its quarterly and annual reports to the SEC and the Philippine Stock Exchange (PSE). SMPH Management shall present the details of transactions entered into by the Company with related parties to the Audit and Risk Management Committee for review. This is to ensure that the Company conducts all related-party transactions on an arms' length basis.
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	
(8) Interlocking director relationship of Board of Directors	

(b) Conflict of Interest

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

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

There are no actual or perceived conflicts of interest which involve directors, officers, or shareholders holding 5% or more of outstanding common shares.

Mechanism

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

	Directors/Officers/Significant Shareholders
Company Group	• Mandatory disclosure of conflicts of interest • Required disclosure of existing relationships during hiring • Inhibiting oneself from the processing and approval of the transactions when conflicted. For directors, abstaining from participating in discussions on a particular agenda when conflicted. • Enforcement of the Policy on Accountability, Integrity and Vigilance (Whistleblower Policy) and Code of Ethics

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[6] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

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

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

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

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

No shareholder agreements that may impact on the control, ownership, and strategic direction of the company were noted in year 2014.

6) Alternative Dispute Resolution

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

	Alternative Dispute Resolution System
Corporation & Stockholders **Corporation & Third Parties** **Corporation & Regulatory Authorities**	As provided in the Revised Manual on Corporate Governance, it is the responsibility of the Board of Directors to establish an alternate dispute resolution system to settle conflicts between the Corporation and its stockholders or other third parties, including regulatory authorities. As such, the Board of Directors normally engages the services of a neutral third party to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative dispute resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the circumstances sees fit. Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties,

[6] Family relationship up to the fourth civil degree either by consanguinity or affinity.

	and the policy that the decision-making authority in the process rests with the parties. There were no conflicts between the corporation and its stockholders, the corporation and third parties, and the corporation and regulatory authorities, for the last three years.

C. BOARD MEETINGS & ATTENDANCE

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

Yes, regular meetings of the Board of Directors are held at least once every quarter of the year on such dates and at such times and places as the Chairman of the Board, or in his absence, the President, shall designate or upon the request of a majority of the directors.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman Emeritus	Henry Sy Sr.	15 April 2014	6	6	100
Chairman	Henry T. Sy, Jr.	15 April 2014	6	6	100
Independent	Jose L. Cuisia Jr.	15 April 2014	6	6	100
Independent	Gregorio U. Kilayko	15 April 2014	6	6	100
Independent	Joselito H. Sibayan	15 April 2014	6	6	100
Member	Hans T. Sy	15 April 2014	6	6	100
Member	Herbert T. Sy	15 April 2014	6	6	100
Member	Jorge T. Mendiola	15 April 2014	6	6	100

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

Yes. Non-executive directors meet at least once annually, without the presence of executive directors.

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

The Company's By-Laws state that at a majority of number of directors specified in the Articles of Incorporation shall constitute a quorum for the transaction of business at any meeting, and the act of the directors at any meeting where there is a quorum shall be valid as a corporate act, except for the election of officers.[7] In practice, the quorum requirement is more than two-third vote.

5) Access to Information

(a) How many days in advance are board papers[8] for board of directors meetings provided to the board?

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

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

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

[7] The Company is currently studying this provision of its By-Laws and is considering changing the requirement to two-thirds of the number of directors specified in its Articles.
[8] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

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

Under the Company's Manual on Corporate Governance, the Corporate Secretary is an officer of the Company whose duties and responsibilities are as follows:

- Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.
- As to agenda, get a complete schedule thereof at least for the current year and put the Board on notice before every meeting.
- Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- Attend all Board meetings and maintain record of the same.
- Work fairly and objectively with the Board, Management, stockholders and other stakeholders.
- Submit to the Commission, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.

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

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

(e) Committee Procedures

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

Yes [X] No [ ]

Committee	Details of the procedures
Executive	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Audit	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Audit and Risk Management Committee members may refer to the Company's Internal Auditor, External Auditor, Corporate Secretary or any other business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Internal Auditor.
Nomination	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Remuneration	
Others (specify)	Not applicable.

6) External Advice

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

Procedures	Details
The Board of Directors and each Board Committee may engage the services of consultants to assist them in the performance of their duties and responsibility. For instance, the Audit and Risk Management Committee Charter provides that the Committee may hire a consultant for a more independent assessment of the Company's risk management infrastructure and a review of the practices of the different business units. Moreover, during the conduct of the Annual Board Evaluation, directors are asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and *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. Requests for Board advisors are studied.	

7) Change/s in existing policies

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

Existing Policies	Changes	Reason
Manual on Corporate Governance	• Revision in the scope of Board duties and responsibilities to include other stakeholders, i.e., employees, suppliers, the government, etc. • Added sections for responsibilities of the Chairman of the Board, the Executive Committee, Management and the President • Updated requirements for composition of the Board and its committees	To align with leading corporate governance practices

D. REMUNERATION MATTERS

1) Remuneration Process

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

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	Performance-based	Performance-based
(2) Variable remuneration	Not applicable	Not applicable
(3) Per diem allowance	Php 10,000 per Board meeting or Board Committee meeting attended	Not applicable
(4) Bonus	Performance-based	Performance-based
(5) Stock Options and other financial instruments	Not applicable	Not applicable
(6) Others (specify)	Not applicable	Not applicable

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

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

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The Compensation Committee determines the amount of remuneration which shall be in a level sufficient to	Executive compensation is composed of salaries, bonuses and, plus fixed per diem for every board meeting attended.	Benchmarks such as industry peer group, compensation studies, and level of responsibilities are used

Non-Executive Directors	attract directors, executives and other key senior personnel needed to run the Company successfully.	Fixed per diem for every board meeting attended and allowances commensurate to the responsibilities given.	as basis.

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

Remuneration Scheme	Date of Stockholders' Approval
Yes. The Company complies with Sec. 30 of the Corporation Code of the Philippines, which states that compensation other than per diems may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock. Aside from per diems, no other forms of compensation are given to the Company's directors with respect to the services they render as directors. During the Annual Stockholders' Meeting, the stockholders ratify all acts of the Board and Management, including those pertaining to Board remuneration.	15 April 2014 16 April 2013 24 April 2012

3) Aggregate Remuneration

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

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration (b) Variable Remuneration (c) Per diem Allowance (d) Bonuses (e) Stock Options and/or other financial instruments (f) Others (Specify) **Total**	Total remuneration and bonus paid to Executive Director and four most highly compensated executive officers: Year / Salary / Bonus 2014 / P84,000,000 / P14,000,000 The total per diem allowance paid to directors in 2014 amounted to P920,000. There are no stock options and/or other financial instruments given to directors.		

Year	Salary	Bonus
2014	P84,000,000	P14,000,000

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances 2) Credit granted 3) Pension Plan/s Contributions (d) Pension Plans, Obligations incurred (e) Life Insurance Premium (f) Hospitalization Plan (g) Car Plan (h) Others (Specify) **Total**	There are no advances, credit and car plan granted to directors. The directors (except independent directors) are covered with the company's pension, life insurance and hospitalization plans.		

4) Stock Rights, Options and Warrants

(a) Board of Directors

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

The company does not grant stock rights, options or warrants over the company's shares.

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

(b) Amendments of Incentive Programs

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

There was no incentive program that was amended or discontinued.

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

5) Remuneration of Management

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

Name of Officer/Position	Total Remuneration
The total remuneration of top five members of management for 2014 is Php 98,000,000.00.	

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

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

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3[9]	2[5]	0	Yes	• Assists the Board in overseeing the implementation of strategies; • Reviews major issues facing the organization; • Monitors the operating activities of each business group; • Defines and monitors the Company's performance improvement goals; • Defines group-wide policies and actions and overseeing their implementation; • Fosters the sharing of information in all areas of the business group.		
Audit and Risk Management	0	3[5]	3	Yes	• Checks all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements. • Performs oversight financial statement functions, specifically in areas of managing credit, market, liquidity, operational, legal and		

[9] Includes non-directors.

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
					other risks of the Corporation, and crisis management. • Pre-approves all audit plans, scope and frequency one (1) month before the conduct of external audit. • Performs direct interface functions with the internal and external auditors. • Elevates to international standards, the accounting and auditing processes, practices and methodologies. • Develops a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation through a step-by-step procedures and policies handbook that will be used by the entire organization.		
Nomination	0	1	3	Yes	• Pre-screens and shortlists all candidates nominated to become a member of the Board as well as those nominated to positions that require Board approval under the Corporation's By-Laws. • In consultation with the appropriate executive or management committee/s, redefines the role, duties and responsibilities of the CEO by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. • Determines the number of directorships which a member of the Board may hold, in accordance with the guidelines provided under this Manual and all relevant rules and regulations. • Facilitates the annual performance evaluation of the Board, Board Committees and the individual Directors. •		
Compensation and Remuneration	1	0	2	Yes	• Establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Corporation's culture, strategy and control environment. • Designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Corporation successfully. • Reviews existing policies pertaining to conflict of interest, salaries and benefits, promotion and career advancement, and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.		

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Henry T. Sy, Jr.	April 15, 2014	17	17	100%	8 mos
Member (ED)	Hans T. Sy	April 15, 2014	17	17	100%	8 mos
Member	Elizabeth T. Sy	April 15, 2014	17	17	100%	8 mos
Member	Jeffrey C. Lim	April 15, 2014	17	17	100%	8 mos
Member	John Nai Peng C. Ong	April 15, 2014	17	17	100%	8 mos

(b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Jose L. Cuisia, Jr.	April 15, 2014	5	5	100%	12 yrs
Member (ID)	Gregorio U. Kilayko	April 15, 2014	5	5	100%	6 yrs
Member (ID)	Joselito H. Sibayan	April 15, 2014	5	5	100%	3 yrs
Member (NED)	Jorge T. Mendiola	April 15, 2014	5	5	100%	2 yrs
Member	Jose T. Sio	April 15, 2014	5	5	100%	10 yrs
Member	Serafin U. Salvador	April 15, 2014	5	5	100%	10 yrs
Member	Corazon I. Morando	April 15, 2014	5	5	100%	6 yrs

Disclose the profile or qualifications of the Audit Committee members.

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

Mr. Gregorio U. Kilayko (Member, Independent Director) - Mr. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Barings' stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He also served as a director of the demutualized Philippine Stock Exchange in 2003. He took his MBA at the Wharton School of the University of Pennsylvania. He was elected as an Independent Director in 2008.

Mr. Joselito H. Sibayan (Member, Independent Director) - Mr. Sibayan has spent the past 28 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration (MBA) from the University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director of SM Prime in 2011.

Mr. Jorge T. Mendiola (Member, Non-Executive Director) – Mr. Mendiola was elected as a Director in December 2012. He is currently the President of SM Retail, Inc. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become the President in 2011. He is also the Vice Chairman for Advocacy of the Philippine Retailers Association. He received his Master in Business Management from the Asian Institute of Management and has an A.B. Economics degree from Ateneo de

Manila University.

Mr. Jose T. Sio (Member) – Mr. Sio is the Executive Vice President and Chief Finance Officer of SM Investments Corporation. He is 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. He is also Adviser to the Board of Directors of BDO Unibank, Inc. and SM Development Corporation. He 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. (a member practice of Ernst & Young).

Atty. Serafin U. Salvador (Member) – Atty. Salvador graduated with a Bachelor of Law Degree from the University of the Philippines in 1968. He attended the Graduate Tax Program at the Graduate School of Law of the New York University, and completed his Master's Degree in Business Administration at the Ateneo de Manila University. He likewise attended the TOP Management Program at the Asian Institute of Management and the Managing Multinational Enterprises Program at the INSEAD, Fontainebleau, France. He was the previous Head of the Tax Division and a Tax Principal of Sycip Gorres Velayo & Co., where he stayed for 30 years. He is also a professor of Taxation in the colleges of Law of the University of the Philippines and the Ateneo de Manila University.

Atty. Corazon I. Morando (Member) – Atty. Morando was the former Senior Vice President for Legal and Corporate Affairs, Compliance Officer and Assistant Corporate Secretary of the Company and SM Investments Corporation, as well as the Compliance Officer of SM Development Corporation. She holds a Bachelor of Law Degree from the University of the Philippines and took up graduate studies under the MBA – Senior Executive Program of the Ateneo de Manila University. She was formerly the Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

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

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

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

The Committee also evaluates the performance of external auditors. The Committee also reviews the independence of the external auditors and meets with the latter separately to discuss any matters that either party believes should be discussed privately.

(c) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Joselito H. Sibayan	Nov 3, 2014	2	1	50	2 mos.
Member (NED)	Herbert T. Sy	April 15, 2014	2	2	100	9 yrs
Member (ID)	Jose L. Cuisia, Jr.	April 15, 2014	2	2	100	12 yrs
Member (ID)	Gregorio U. Kilayko	April 15, 2014	2	2	100	12 yrs

(d) Compensation Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Gregorio U. Kilayko	April 15, 2014	2	2	100	6 yrs
Member (ED)	Hans T. Sy	April 15, 2014	2	2	100	12 yrs
Member (ID)	Joselito H. Sibayan	April 15, 2014	2	2	100	3 yrs

(e) Others (Specify)

Provide the same information on all other committees constituted by the Board of Directors:

None. Not applicable.

3) Changes in Committee Members

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

Name of Committee	Name	Reason
Executive	Henry T. Sy, Jr.	Creation of committee.
	Hans T. Sy	Creation of committee.
	Elizabeth T. Sy	Creation of committee.
	Jeffrey C. Lim	Creation of committee.
	John Nai Peng C. Ong	Creation of committee.
Audit	None.	
Nomination	Joselito H. Sibayan	Nominated as Chairman.
Remuneration	Gregorio U. Kilayko	Nominated as Chairman.
Others (specify)	Not applicable.	

4) Work Done and Issues Addressed

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

Name of Committee	Work Done	Issues Addressed
Executive	• Reviewed the operating performance and financial results of each business unit within SM Prime. • Reviewed and approved business development plans, land acquisitions and project development strategies. • Reviewed the group's budget. • Reviewed the roadmap of each business unit within SM Prime vis-à-vis corporate strategies.	Implementation of the strategic and long-term goals of the Company
Audit and Risk Management	• Reviewed and approved the following with regard to the Independent Auditor and the Internal Auditor: - Their respective audit plans, scope, risk-based methods and timetables; - The results of their examinations and Management's action plans to address pending audit issues; and - Their assessment of internal controls, including controls over financial reporting; • Reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles and relevant pending tax legislations, which could impact SM Prime; • Reviewed and approved the results of all audit services provided by SGV & Co. and related audit fees; • Reviewed and ensured that the Company's related party transactions were conducted at arm's length basis; • Reviewed the internal control system of the Company based on the assessments completed and reported by internal and external auditors and found that the system is adequate and effective; • Discussed the results of the enterprise-wide risk assessment and Management's action plans to address identified risks; • Discussed with the Independent Auditor matters required to be discussed by prevailing applicable Auditing Standards, such as the auditor's independence; • Reviewed the financial statements of SM Prime Holdings,	Reported audit findings, identified significant risks and related party transactions

	Inc. for the first quarter ended March 31, 2014, second quarter ended June 30, 2014, and third quarter ended September 30, 2014; • Recommended for Board approval the audited financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2014; • Reviewed and discussed the performance, independence and qualifications of the Independent Auditor in the conduct of its audit of the financial statements of SM Prime Holdings, Inc. for the year 2014.	
Nomination	• Screened candidates nominated to the Board of Directors who shall hold office for 2014-2015 based on the qualifications and disqualifications provided in the Revised Manual on Corporate Governance and in light of the strategic directions of the Company; • Facilitated the conduct of the annual performance evaluation of individual directors, Board committees, the Board as a whole and the President of the Company. • Made changes in its Charter to align with leading corporate governance practices, i.e., requirement to facilitate annual Board evaluation, requirement for a majority of independent directors in the Committee and an independent director as the Committee Chairman, etc. • Restructured the Committee based on the provisions of the new Charter.	Adherence to leading corporate governance practices.
Compensation	• Reviewed the Board compensation structure based on its alignment with the Company's culture, strategy and control environment; • Made changes in its Charter to align with leading corporate governance practices, i.e., requirement to regularly review existing policies on compensation, requirement for a majority of independent directors in the Committee and an independent director as the Committee Chairman, etc. • Restructured the Committee based on the provisions of the new Charter.	Adherence to leading corporate governance practices.
Others (specify)	None. Not applicable.	

5) Committee Program

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

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Improvements in Project Monitoring	Risks relating to project delivery
Audit and Risk Management	• Business Continuity Management • Reputational Risk Management • Insurance Management • Quality Assurance of Internal Audit Department	• Business interruption risks • Risks that would have an adverse effect on the Company's image • Adequacy of insurance coverage and dependability of insurers/ reinsurers • Continuous quality improvement of Internal Audit Department
Nomination	• Enhancements in the process of searching for and screening candidates to the Board of Directors, particularly the use of external search firms and/or databases. • Succession planning for key management positions	• Efficiency and effectiveness in the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, and appoint competent, professional, honest and highly-motivated management officers • Risks associated with unforeseen movements in key management positions
Remuneration	• Review of the Executive Compensation Policy	• Risks associated with the sufficiency of the level of compensation given to directors and

	• Enhancements in the process of reviewing changes in the amount of compensation of directors and officers, particularly the effect of such changes with respect to the results of performance evaluations	officers, so that they are equitable and appropriately corresponds to the respective assigned duties and responsibilities, current business environment and performance results of the Company
Others (specify)	None. Not applicable.	

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

SMPHI is committed to protect and preserve its ability to achieve its vision and mission by ensuring that its assets, both tangible and intangible, are protected against damage and loss. As such, it has implemented a program of risk management through the identification, analysis and control of risks, which can most impact on the Company's ability to pursue its approved strategy.

SMPHI recognizes that risk taking is a necessary part of conducting business. In the context of realizing SMPHI's strategic growth objectives, failure is an accepted part of risk taking, as long as risks have been properly assessed and managed.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Board of Directors, through the Audit and Risk Management Committee, reviewed the Company's risk management system and found the same to be effective and adequate.

(c) Period covered by the review;

Year 2014

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

The risk management system is reviewed on an annual basis. Effectiveness of the system is evaluated based on number of risks identified, risks mitigated and risks monitored.

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

Not applicable.

2) Risk Policy

(a) Company

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

SM Prime is covered by SM Group's Risk Management Policy set out in the next section.

Risk Exposure	Risk Management Policy	Objective
Safety and Security Risk	SM Prime shall prioritize safety and security in all its properties.	To protect the health, safety and welfare of its employees and the people it serves.
Property Damage and Business Disruption Risks	SM Prime shall ensure the disaster resiliency of its assets.	To protect its property, assets and other resources.

Risk Exposure	Risk Management Policy	Objective
Information Security Risks	SM Prime shall ensure the confidentiality, integrity and availability of its information systems and infrastructure.	To protect its property, assets and other resources.
Process Risks	SM Prime will seek to reduce or control risks that affect the quality of service delivery or delivery of its priorities.	To maintain the quality of its services, which affect its reputation and good standing in the wider community.
Financial Risks	SM Prime will seek to reduce or controls risks that would have significant financial consequences or affect shareholder confidence.	To protect its ability and capability to deliver sustainable growth and increase shareholder value.
Regulatory Compliance Risk	SM Prime shall comply with all applicable laws in the countries, districts, and communities in which it operates.	To comply with applicable laws, rules and regulations.

(b) Group

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

Risk Exposure	Risk Management Policy	Objective
The following mother risk management policy applies to all the subsidiaries of the Group: (i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives. (ii) To protect and preserve: • our employees' and clients' safety and welfare • the value and condition of properties and assets • our local and global reputation (iii) To align risk appetite and strategy. The Enterprise Risk Management Committee (ERM) has been set up to execute the risk mitigation strategies and programs that have been approved at the Audit and Risk Management Committee of the Board. The ERM has been established in each of the subsidiaries including the holding company. The Risk Management Department at the holding company coordinates the launch and roll-out program of the ERM and in standardizing the program across companies.		

(c) Minority Shareholders

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

Risk to Minority Shareholders
Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines: • Majority shareholders may dominate major Company decisions • Lack of transparency on the actions and decisions of majority shareholders • Abusive and inequitable conduct on the part of majority shareholders • Rights of minority shareholders may not be upheld and protected The Company adopts certain measures that ensure that the aforementioned risks are mitigated, such as cumulative voting.

3) Control System Set Up

(a) Company

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

Risk Exposure	**Risk Assessment** **(Monitoring and Measurement Process)**	**Risk Management and Control** **(Structures, Procedures, Actions Taken)**
Safety and Security	Annual audit by third parties (one for safety and another for security)	The Customer Relations Service Department is responsible for maintaining the safety and security of all SM Malls through implementation of access control system. Department personnel are also trained to respond to safety and security incidents.
Property Damage and Business Disruption	Annual review of insurance claims, business impact assessment	Disaster-resilient buildings, data back-up procedures, implementation of redundancy/reserves for critical resources
Information Security	Vulnerability assessment and penetration testing, incident monitoring	The Information Security Department monitors compliance with Information Security Policy and incidents of information security breaches.
Process Risks	Business process reviews	The Business Process Management Department reviews existing processes and initiates the creation of tools that enhance efficiency.
Financial Risks	Regular monitoring of interest and forex rates, financial ratios and aging of accounts receivables.	Interest rate risks: Use of both fixed and floating rate debts; interest rate swaps; NDFs, refinancing or prepayment of high-interest loans Foreign currency risk: Cross-currency swaps; foreign currency call options Credit Risk: Tenant Screening, AR Management (collection agency) Capital Management Risk: Maintain approved debt to equity ratio.
Regulatory Compliance Risk	Compliance monitoring and reporting	Operations Planning and Control is responsible for monitoring compliance with mall permits and licenses, and environmental regulations.

(b) Group

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

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

(c) Committee

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

Committee/Unit	**Control Mechanism**	**Details of its Functions**
Audit and Risk Management Committee	The following functionally reports to the ARMC: • Chief Audit Executive • Chief Risk Officer • Compliance Officer	The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal

Committee/Unit	Control Mechanism	Details of its Functions
	• Head of Corporate Governance and Risk Management	control systems, its audit plans, auditing processes, related party transactions, and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.
Executive Committee	Has all the power and authority of the Board in the governance, management and direction of the business and affairs of the Company.	The Committee provides oversight in the assessment of impact of risks on the strategic and long-term goals of the Company.
Management Committee	Has overall management control over departments and instrumentalities of the Company.	The Committee ensures the achievement of goals and strategies set by the Board.
PAIV Committee	A management committee that handles whistleblower cases.	Upon receipt of an Incident Report, the Committee conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee.
Enterprise Risk Management Committee	Composed of all the Risk Owners (Department Heads) and chaired by the Chief Risk Officer.	Updates the Risk Registers and monitors execution of action plans to mitigate exposures.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

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

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

The internal control system of the company is defined as the set of processes implemented by the Board of Directors, Management and all employees to provide reasonable assurance that the company's objectives will be achieved.

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

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

(c) Period covered by the review;

Year 2014

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

Internal controls are reviewed on annual basis for high risk processes of key business units based on the Internal Audit Plan submitted by the Chief Audit Executive to senior management and the Board for review and approval. The Board, through the Audit and Risk Management Committee, relies upon the assurances provided by the Internal Audit Department, through the latter's conduct of audit engagements to evaluate, among other things, the following:

- Reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Design of established systems to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on the organization;

- The means of safeguarding assets, and as appropriate, verifying the existence of such assets;
- Effectiveness and efficiency with which resources are employed; and
- Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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

Not applicable, reviews of priority high risk areas were carried out in 2014.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

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

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Independent Reviewer	Internal Controls, Risk Management, Governance	In-house	Davee M. Zuniga	Quarterly reporting of significant observations to the Audit and Risk Management Committee

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes, as stated in the Internal Audit Charter.

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

The Chief Audit Executive, representative of the Internal Audit Department, reports functionally to the Board through the Audit and Risk Management Committee.

The Internal Audit Charter provides the Internal Audit Department direct and unfettered access to the board and audit committee and to all records, properties and personnel.

(d) Resignation, Re-assignment and Reasons

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

Name of Audit Staff	Reason
Rinajoen Coronado	Another job
Raquel Mandocdoc	Another job
John Bann Palomares	Another job
Stephanie Molo	Another job
Marianne Baloaloa	Inter-company transfer
Vera Jane Cuevas	Another job

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

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

Progress Against Plans	100% completion of 2014 Audit Plan
Issues[10]	- Non-compliance with internal policies and procedures

[10] "Issues" are compliance matters that arise from adopting different interpretations.

	- System security issues - Process and/or system design issues
Findings[11]	- Unbilled and/or uncollected rental fees
Examination Trends	All noted issues and findings are discussed with concerned Management for appropriate action. Internal Audit monitors implementation of committed action plans.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

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

(f) Audit Control Policies and Procedures

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

Policies & Procedures	Implementation
Guidelines on Planning an Engagement	Implemented
Guidelines on Compliance Audit Planning for Mall-Wide Sale	Implemented
Policies and Guidelines on Sampling Selection	Implemented
Policies and Guidelines on Communicating Engagement Results	Implemented

(g) Mechanism and Safeguards

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

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Dual reporting line of Internal Audit Department – functional reporting to the Board through Audit and Risk Management Committee and administrative reporting to Management	Conflict of Interest Policy	Conflict of Interest Policy	Not applicable.
Duly approved Audit Committee Charter and Internal Audit Charter			
Conflict of Interest Policy			

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

Henry T. Sy, Jr – Chairman of the Board of Directors
Hans T. Sy – President

[11] "Findings" are those with concrete basis under the company's policies and rules.

H. ROLE OF STAKEHOLDERS

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

	Policy	Activities
Customers' welfare	Code of Ethics: SMPH recognizes that the core of its business is its customers, and values customer satisfaction and loyalty. Thus, all directors, officers and employees shall be guided by fairness, professionalism, courtesy and respect when dealing with customers, and shall endeavor to provide excellent and diligent service at all times. No false or misleading information shall be provided to customers. Likewise, SMPH is committed to protect the safety and security of its customers. Accordingly, the Company shall undertake to keep its premises well-secured, and continuously implement ways to eliminate hazards that would pose threats to the safety of its customers.	The Company engages in various activities which focus on the different segments of its customer-base – youth, women and breastfeeding mothers, the elderly, Overseas Filipino Workers and their families, and persons with disability.
Supplier/contractor selection practice	Code of Ethics: The Company adheres to the principles of healthy competition, equal opportunity and fair treatment of business partners. As such, selection of suppliers follows an open, competitive and non-discriminatory process. SM Prime implements a vendor enrolment process that screens qualifications of vendors/suppliers the Company will deal with. Such qualifications include legality of entity or business, adequacy of financial strength, compliance with SM Prime policies such as conflict of interest disclosure requirements and ethical standards, and support to SM Prime's environmental missions, health and safety culture.	Securing proposal from at least three (3) reputable contractors/service providers and selecting best offer consistent with identified business solution.
Environmentally friendly value-chain	Code of Ethics: The Company is committed to the protection of the environment and shall comply with all applicable environmental laws and regulations.	- Construction and renovation of malls with core focus on efficiency and sustainable design. - Audit of resource consumption pattern and pursuing highest attainable levels of resource efficiency. - Solid waste management.
Community interaction	Code of Ethics: The Company shall initiate and participate in charitable causes and community organizations to improve the quality of life of the community where it operates, through education, health care and livelihood programs.	- Granting of college scholarships - Donating school buildings - Conducting medical missions - Refurbishing rundown public health centers - Kabalikat sa Kabuhayan Program which provides farmers training on effective ways of producing high yielding fruits and vegetables
Anti-corruption programmes and procedures	The Company's Policy on Accountability, Integrity and Vigilance (Whistleblower Policy) was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any stakeholder may submit an incident report on suspected or actual violations of the Code of Ethics and Discipline or any other applicable law or regulation, such as bribery, fraud and other forms of corruption. Upon receipt of an incident report, management is tasked to conduct an	External training on anti-bribery/anti-corruption policies and fraud risk assessment

	Policy	Activities
	investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Anyone who in good faith reports a violation of the Code or policies or law shall not be retaliated upon or suffer harassment or adverse employment consequence. In addition, the Company has issues Guidelines on Acceptance of Gifts, which prohibits the solicitation or acceptance of gifts in any form from a business partner, directly or indirectly, by any director, officer or employee of the Company. The policy is intended to ensure integrity in procurement practices and the selection of the most appropriate business partner in each instance.	
Safeguarding creditors' rights	Code of Ethics: The Company shall respect agreements with creditors, manage loans according to lending objectives, ensure timely repayment of loans and interests, thoroughly honor loan conditions as agreed, and competently operate the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.	Standard disclosure of creditors' rights is observed in all loan agreements with creditors.

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

The Company has a separate Sustainability report to comprehensively discuss its corporate social responsibility and sustainability initiatives. The Sustainability Report follows the GRI reporting framework.

3) Performance-enhancing mechanisms for employee participation.

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

The Code of Ethics provides that all officers and employees are to be selected, engaged, and compensated based on qualification and performance. They shall be treated fairly and accorded respect and dignity. Their individual and collective rights shall not be violated.

The Company shall maintain a safe, productive and conducive workplace and comply with all applicable health, safety and environmental laws. In this regard, company employees are covered by rules against the use of prohibited drugs and working under the influence of liquor.

Opportunities for career advancement shall be provided based on clear performance and qualifications criteria, which shall include both financial and non-financial measures. The Company shall also provide learning and development opportunities for professional growth.

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

Various seminars and wellness programs were also initiated by the Human Resources Department in 2014 for regular employees, such as sports programs, tax clinics and talks on stress management. The Company encourages good health and wellness through its various sports and fitness programs. Employees may use the courts and fitness facilities in the workplace and are encouraged to participate in HRD supported aerobic and dance activities. The Company also conducts orientations and learning sessions on health related matters, such as breast and cervical cancer awareness and detection; influenza and hepatitis B prevention and drug abuse awareness, to name a few. Furthermore, the Company facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and has recently employed the services of a 24 hour roving ambulance service. The Company has also adopted holiday themed activities, to foster camaraderie and provide balance in a fast paced work atmosphere.

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

The Company has Curriculum-Based Training Program with customized trainings for the various levels in the organization. The courses are designed to develop or enhance competencies:

Basic Training Program – A curriculum for Rank and File employees designed to develop basic professional skills to enhance productivity.

Supervisory Development Program – A curriculum for Officer and Supervisor levels designed to develop administrative, leadership, and decision-making skills. The focus is on supervising direct reports and managing specific work responsibilities.

Managerial Development Program – A curriculum for Department-level Managers designed to develop operations level management and implementation skills. The focus is on the management of specific workgroup.

Senior Managerial Development Program – A curriculum for Senior-level Managers designed to develop strategic management and implementation skills at the strategic business unit level.

Executive Development Program – A curriculum for executives designed to develop strategic –level management, implementation and control of multiple strategic business units or entire enterprise.

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

In line with the Code of Ethics, employee compensation and rewards are determined based on the individual performance of the employee and overall Company performance. On an annual basis, performance is measured against defined targets, which are based on both financial and non-financial indicators of progress towards the short and long-term goals of the Company.

This compensation and reward system is designed to retain employee, enhance their performance and ensure achievement of short and long-term goals of the Company.

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

Upon receipt of complaint in the form of an Incident Report from an employee, Management conducts an investigation on its merit, subject to due process. Once proven, appropriate penalties and sanctions may be imposed thereafter. Further, policy provides that anyone who in good faith reports an incident shall not be retaliated upon or suffer harassment or adverse employment consequence.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
SM Investments Corporation (SMIC)	14,197,128,988	49.16%	Felicidad T. Sy - 3.22% Henry T. Sy, Jr. - 7.32% Hans T. Sy - 8.26% Herbert T. Sy - 8.26% Harley T. Sy - 7.33% Teresita T. Sy - 7.14% Elizabeth T. Sy - 5.85%
PCD Nominee Corp.	7,252,748,854	25.11%	No individual shareholders owning 5% or more.

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Hans T. Sy	661,002,569	24,160,943	2.37
Jeffrey C. Lim	-	50,000	0.00
TOTAL	**87,500**	**-**	**0.00**

2) Does the Annual Report disclose the following:

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

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

Not applicable.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
Sycip, Gorres, Velayo & Co.	Php 7,000,000	Nil

4) Medium of Communication

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

- Website
- Briefings
- Press Releases
- Annual Reports

5) Date of release of audited financial report:

March 19, 2015 attached to 2014 Definitive Information Statement (SEC 20-IS)

6) Company Website

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

Business operations	√
Financial statements/reports (current and prior years)	√
Materials provided in briefings to analysts and media	√
Shareholding structure	√

Group corporate structure	√
Downloadable annual report	√
Notice of AGM and/or EGM	√
Company's constitution (company's by-laws, memorandum and articles of association)	√

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

None. Not applicable.

7) **Disclosure of RPT**

RPT	Relationship	Nature	Value (in Thousands)
SM Investments Corporation	Parent	• The Company have existing lease agreements for office and commercial spaces with its parent. • The Company provides manpower and other services. • The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends.	Rent Income P 44,329 Rent Expense P 87,276 Service income P 44,200 Dividend Income P 1,007 Due from related parties P 488
SM Retail Group and SM Banking Group	Affiliates	• The Company have existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates). • The Company has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates. • The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates. • The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees. • The Company provides manpower and other services to affiliates. • The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.	Rent Income P 11,379,209 Rent Expense P 288 Cash and Cash Equivalents P 183,027,363 Time Deposits P 1,957 Investments Held for Trading P 65,416 Interest Income P 238,595 Receivable Financed P 5,122,763 Loans Payable and Long Term Debt P 6,915,000 Interest Expense P 658,400 AFS Investments P 52,886 Dividend Income P 241,712 Service Income P 2,351 Management Fee Income P 7,412 Management Fee Expense P 2,135 Due from Related Parties P 7,261 Due to Related Parties P 793
Shopping Center Management Corporation, SM Lifestyle Entertainment, Inc. and Family Entertainment Center	Affiliates	• The Company pays management fees to Shopping Center Management Corporation, SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (affiliates) for the management of the office and mall premises. • The Company have existing lease agreements for office and commercial spaces with related companies. • The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends.	Management Fee Income P 10,912 Management Fee Expense P 1,110,626 Rent Expense P 3,927 Dividend Income P 14,769 Due to Related Parties P 56,138

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

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

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2014, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

J. RIGHTS OF STOCKHOLDERS

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

(a) Quorum

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

Quorum Required	Stockholders representing majority of the outstanding capital stock

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

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

(c) Stockholders' Rights

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

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

Dividends

Declaration Date	Record Date	Payment Date
April 15, 2014	May 15, 2014	June 10, 2014

(d) Stockholders' Participation

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

Measures Adopted	Communication Procedure
Notice of the Annual Stockholders' Meeting is given to all stockholders at least 21 business days before the meeting to provide stockholders with enough time	• Notice of the Annual Stockholders' Meeting

Measures Adopted	Communication Procedure
to examine the information. The Notice enclosed essential and adequate facts on all items on the agenda for consideration and approval of the stockholders. As provided for in the Company's Manual on Corporate Governance, minority stockholders have the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.	• Information Statement
To facilitate representation from stockholders who cannot attend the meeting, they are encouraged to fill out, date, sign and send a proxy. For corporate stockholders, the proxies should be accompanied by a Secretary's Certificate on the appointment of the corporation's authorized signatory.	• Notice of the Annual Stockholders' Meeting • Proxy Forms • Information Statement
To ensure that all stockholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Senior Management, Corporate Secretary and the Independent Auditors are always present during the Annual Stockholders' Meeting. The meeting agenda provides an opportunity for stockholders to freely express their views and raise their concerns at the meeting.	• Notice of the Annual Stockholders' Meeting • Information Statement

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:

   a. Amendments to the company's constitution
   b. Authorization of additional shares
   c. Transfer of all or substantially all assets, which in effect results in the sale of the company

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

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

   a. Date of sending out notices: March 21, 2014

   b. Date of the Annual/Special Stockholders' Meeting: April 15, 2014

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

   A stockholder asked about the book value per share of the Company after the merger. The Board answered that it was 5.99 per share.

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

Resolution	Approving	Dissenting	Abstaining
Approval of the 2013 Minutes of the Annual Stockholders' Meeting	100%	0%	0%
Approval of the 2013 Annual Report	100%	0%	0%
General Ratification of the Acts of Management and the Board of Directors	100%	0%	0%
Amendment of Articles of Incorporation	100%	0%	0%

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

   April 15, 2014 (same day of meeting)

(e) Modifications

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

Modifications	Reason for Modification
None. Not applicable.	

(f) Stockholders' Attendance

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

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Henry Sy, Sr. Henry T. Sy, Jr. Jose L. Cuisia, Jr. Gregorio U. Kilayko Joselito H. Sibayan Hans T. Sy Herbert T. Sy Jorge T. Mendiola	4/15/14	By Poll	10%	78.6%	88.6%
Special	Not applicable (NAP)*	NAP	NAP	NAP	NAP	NAP

* Holding of special meeting(s) of the Board of Directors was deemed unnecessary in 2014.

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

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

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

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

(g) Proxy Voting Policies

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

	Company's Policies
Execution and acceptance of proxies	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Notary	Notarization of proxies is not required.
Submission of Proxy	Proxies must be filed with the Corporate Secretary at least 72 hours before the stockholders' meeting.
Several Proxies	Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Validity of Proxy	In compliance with the Corporation Code, unless otherwise provided in the proxy, said proxy shall only be valid for the meeting for which it is intended. No proxy shall be valid or effective for a period longer than five (5) years.
Proxies executed abroad	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation, regardless if they are abroad.
Invalidated Proxy Validation of Proxy	Two inspectors may be appointed by the Board of Directors before or at each meeting of the stockholders of the corporation at which an

Violation of Proxy	election of directors shall take place. The inspectors shall receive and take charge of all proxies and ballots and shall decide all questions touching upon the qualifications of voters, the validity of proxies and the acceptance and rejection of votes.

(h) Sending of Notices

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

Policies	Procedure
Based on the Company's By-Laws, notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder of record at his last known post office address or by publication in a newspaper of general circulation. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. At special meetings, only matters stated in the notice can be the subject of motions or deliberations. When the meeting of stockholders is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.	In practice, the Company sends out notice of annual or special stockholders' meeting at least three (3) weeks before the actual meeting. Included with the notice are the documents required for proxy voting, copies of the Information Statement and other relevant materials pertaining, but not limited to information on nominated directors and external auditors (for appointment or re-appointment) and resolutions to be taken up during the meeting.

(i) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	2,541
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	March 21, 2014
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	March 21, 2014
State whether CD format or hard copies were distributed	CD
If yes, indicate whether requesting stockholders were provided hard copies	Not applicable

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

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

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

Not applicable.

2) Treatment of Minority Stockholders

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

Policies	Implementation
Manual on Corporate Governance	The Company's Manual on Corporate Governance provides for the rights of its minority stockholders. Rights include, but are not limited to the following: • Voting Rights • Appraisal Right • Inspection Right • Right to Information • Right to Dividends
Code of Ethics	The Company's Code of Ethics provide for the following: • The SM Group is committed to strengthen its corporate governance practices with the end in view of increasing shareholder value over time. • The Company shall maintains accurate and complete records of all financial and business transactions in accordance with laws and regulations governing financial reporting and generally accepted accounting principles. These provide the basis for the report it discloses to the public and its shareholders regarding the Company's results of operations and financial position. The Company also ensures that an independent audit of its financial statements is conducted by external auditors. • Whether in selection of the countries and markets where the Company operates, hiring and promotion of employees, selection of suppliers and contractors – the company decides on the basis of merit and value to shareholders. • All business decisions and actions must be based on the best interests of the Company and the value to shareholders, and should not be motivated by personal considerations or relationships which may interfere with the exercise of independent judgment.

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

Yes. Under the Company's By-Laws and Corporate Governance Manual, all stockholders have the right to nominate candidates to the Board.

K. INVESTORS RELATIONS PROGRAM

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

For financial results, the disclosure is quarterly. All results have to be presented to the Chief Information Officer, the Audit and Risk Management Committee and the Board for approval prior to distribution to the public. Material disclosures relating to capital expenditures, fund raisings, project launches, etc. are disclosed upon approval of the Management Committee of the concerned business unit and the Chief Information Officer.

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

SM Prime is committed to providing its stakeholders and the public timely and accurate information pertaining to its business operations. SM Prime consistently enhances its disclosures and regularly updates its website to provide greater transparency. It also conducts regular briefing with investors and the media. Briefing materials are made available in its website.

Further, the Company maintains a separate Corporate Governance section in its website, which is used to disclose to the public all of SM Prime's efforts to further develop its corporate governance culture. The section features information about corporate governance policies, programs, and other relevant activities.

Also, SM Prime actively participates in non-deal roadshows/conferences hosted by various brokers to meet with existing and prospective investors.

	Details
(1) Objectives	• Assist investors in making investment decisions with regard to shares of SM and its listed subsidiaries. • Guide analysts in formulating their forecasts and recommendations with regard to the valuation and prospects of SM and its listed subsidiaries. • Provide the regulators, the media and the general public with the most current information about SM Investments and all of its core businesses which will have a material impact on the company's overall growth and profitability. • Ensure that material disclosures are immediately disseminated without prejudice to any one group
(2) Principles	• Transparency and accountability to all existing and potential investors • Fairness and level playing field for all stakeholders
(3) Modes of Communications	• Direct: One-on-one meetings, roadshows, investor conferences, teleconference and video conference • Web based: Website, email services Analyst and media briefings, press conferences, TV/radio guestings • Social media: Twitter • Print: PSE/SEC filings, annual reports, powerpoint presentations, press releases, speeches
(4) Investors Relations Officer	Teresa Cecilia R. Agsalud

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

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

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

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

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

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

Initiative	Beneficiary
SM Cares for Children and Youth Development SM builds all-access malls with tiny feet in mind, and upgrades existing ones to include the latest in child-proof technology.	Children
SM Cares for Persons with Disabilities SM Supermalls has championed the issues of Persons with Disabilities (PWDs) longing to be heard, by giving them a venue to host their events and spread their cause, and a second home where they can feel welcome and secure.	Persons with disability
SM Cares for Overseas Filipino Workers: Global Pinoy Program	OFWs and their families

SM Global Pinoy Program honors modern heroes by serving them and helpings improve their lives by bringing them closer to home.	
SM Cares for Women and Breastfeeding Mothers SM Supermalls promotes breastfeeding in the malls as well as in the workplace for nursing mothers. It also hosts various exhibits, forums and discussions on parenting issues.	Filipino women
SM Cares for Senior Citizens SM goes beyond offering senior citizens courtesy lanes. The Company designs programs that encourage the elderly to be more active, engaged and social.	Senior Citizens
SM Cares for the Environment and Sustainability The program focuses on energy efficiency, solid waste management, air quality and water recycling.	Community
SM Special Project for the Underprivileged More than 3,000 employees of retail giant SM Supermalls brought cheers through various charity events throughout the Christmas season for the underprivileged sectors of society.	Underprivileged sectors of society
SM Cares Housing Program SM turned over calamity-resistant houses in areas affected by Typhoon Yolanda.	Victims of Typhoon Yolanda

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

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

	Process	Criteria
s	Under the guidance of the Nomination Committee, the Board conducts an annual performance self-evaluation. The performance evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for by the Manual on Corporate 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	• Diversity of competencies • Adequate knowledge of different risks • Industrial background • Academic qualifications • Work in general • Decision making • Discussions on short & long term developments • Discussions on business strategies and plans • Discussions on risks and regulations • Promotion of good governance principles • Promotion of continuing education • Board committee performance
Board Committees		
Individual Directors		• Independence • Participation • Expertise
CEO/President		• Effective leadership • Integrity • Diligence • Adherence to Corporate governance

	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.	

N. INTERNAL BREACHES AND SANCTIONS

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

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

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City PASIG CITY on MAR 1 2 2015.

SM PRIME HOLDINGS, INC.

Pursuant to the requirements of the Securities Regulations Code, this annual report has been signed by the following persons in their capacities and on the dates indicated.

By:

HANS T. SY
President
Date: 3/12/2015

John Nai Peng C. Ong
JOHN NAI PENG C. ONG
Chief Finance Officer
Date: 3/12/2015

Teresa Cecilia H. Reyes
TERESA CECILIA H. REYES
Vice President - Finance
Date: 3/12/2015

ELMER B. SERRANO
Corporate Secretary
Date: 3/12/2015

SUBSCRIBED AND SWORN to before me this MAR 1 2 2015 at PASIG CITY, affiants exhibiting to me their passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HANS T. SY	EB4448660	January 14, 2012	Manila
JOHN NAI PENG C. ONG	EC2047924	September 7, 2014	Manila
TERESA CECILIA H. REYES	EB8507028	June 27, 2013	Manila
ELMER B. SERRANO	EB7383852	February 13, 2013	Manila

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Book No. I;
Series of 2015.

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PTR No. 0381605; 01.07.15; Pasig City
IBP No. 0985151; 01.06.15; RSM