# COVER SHEET

SEC Registration Number

16342

Company Name

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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

10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300

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

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| – | 857-0100 | – |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 1,236 | 04/27 | 06/30 |

## 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. Jose T. Sio | – | 857-0100 | – |

Contact Person's Address

10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300

**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.

SEC Number **16342**
PSE Disclosure Security Code

**SM INVESTMENTS CORPORATION**
(Company's Full Name)

**10th Floor, One E-Com Center, Harbor Drive,**
**Mall of Asia Complex, CBP-IA, Pasay City 1300**
(Company's Address)

**857- 0100**
(Telephone Number)

**December 31**
(Year Ending)
(month & day)

**SEC Form 17-Q**
**2nd Quarter Report**
Form Type

Amendment Designation (If applicable)

**June 30, 2015**
Period Ended Date

(Secondary License Type and File Number)

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **June 30, 2015**

2. Commission Identification Number **016342** 3. BIR Tax Identification No. **169-020-000**

4. Exact name of registrant as specified in its charter **SM INVESTMENTS CORPORATION**

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

6. Industry Classification Code: [ ] (SEC Use Only)

7. **10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-IA, Pasay City 1300**
   Address of principal office Postal Code

8. **857-0100**
   Registrant's telephone number, including area code

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

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of Each Class of Common Stock Outstanding | Number of Shares | Amount of Debt Outstanding |
|---|---|---|
| **COMMON STOCK P10 PAR VALUE** | **803,055,405** | **N.A.** |

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

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Securities Regulation 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 [ ]

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**PART I – FINANCIAL INFORMATION**



**PART II – SIGNATURE**

## PART I FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements**

# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
June 30, 2015 and December 31, 2014
and for the Six Months Ended June 30, 2015 and 2014

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

**(Amounts in Thousands)**

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5 and 24) | **₱36,643,313** | ₱69,133,381 |
| Time deposits (Notes 6 and 24) | **9,085,850** | 9,000,324 |
| Investments held for trading and sale (Notes 7 and 24) | **983,201** | 4,190,449 |
| Receivables (Note 8) | **40,681,190** | 31,009,820 |
| Merchandise inventories - at cost (Note 21) | **15,882,766** | 14,882,200 |
| Other current assets (Note 9) | **44,348,392** | 55,821,423 |
| Total Current Assets | **147,624,712** | 184,037,597 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Notes 10 and 24) | **21,669,834** | 19,205,044 |
| Investments in associates and joint ventures (Note 11) | **163,648,003** | 145,476,174 |
| Time deposits (Notes 6 and 24) | **50,380,080** | 47,579,390 |
| Property and equipment (Note 12) | **19,183,879** | 19,903,014 |
| Investment properties (Note 13) | **238,904,556** | 221,429,714 |
| Land and development (Note 14) | **28,702,480** | 26,629,864 |
| Intangibles (Note 15) | **22,303,203** | 22,303,203 |
| Deferred tax assets - net (Note 22) | **2,418,043** | 2,293,944 |
| Other noncurrent assets (Note 15) | **26,213,018** | 23,026,665 |
| Total Noncurrent Assets | **573,423,096** | 527,847,012 |
| | **₱721,047,808** | ₱711,884,609 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans (Notes 16, 20 and 24) | **₱18,358,741** | ₱13,892,641 |
| Accounts payable and other current liabilities (Note 17) | **60,026,328** | 69,861,065 |
| Income tax payable | **1,779,120** | 1,593,060 |
| Current portion of long-term debt (Notes 18 and 24) | **27,252,874** | 10,669,108 |
| Dividends payable | **172,566** | 264,882 |
| Total Current Liabilities | **107,589,629** | 96,280,756 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 18, 20, 24 and 25) | **220,274,521** | 237,113,555 |
| Derivative liabilities (Notes 24 and 25) | **10,132** | 58,705 |
| Deferred tax liabilities - net (Note 22) | **7,160,710** | 6,867,925 |
| Tenants' deposits and others (Notes 13, 23 and 25) | **23,207,173** | 21,615,259 |
| Total Noncurrent Liabilities | **250,652,536** | 265,655,444 |
| Total Liabilities | **358,242,165** | 361,936,200 |
| **Equity Attributable to Owners of the Parent** | | |
| Capital stock (Note 19) | **8,030,554** | 7,963,406 |
| Additional paid-in capital (Note 19) | **76,785,163** | 71,952,082 |
| Equity adjustments from common control transactions (Note 19) | **(1,902,933)** | (1,902,933) |
| Cost of Parent common shares held by subsidiaries (Note 19) | **(25,386)** | (25,386) |
| Cumulative translation adjustment | **981,085** | 866,360 |
| Remeasurement loss on defined benefit asset/obligation | **(126,530)** | (126,530) |
| Net unrealized gain on available-for-sale investments | **13,487,635** | 10,207,259 |
| Retained earnings (Note 19): | | |
| Appropriated | **27,000,000** | 27,000,000 |
| Unappropriated | **146,043,930** | 141,069,856 |
| Total Equity Attributable to Owners of the Parent | **270,273,518** | 257,004,114 |
| **Non-controlling Interests** | **92,532,125** | 92,944,295 |
| Total Equity | **362,805,643** | 349,948,409 |
| | **₱721,047,808** | ₱711,884,609 |

*See accompanying Notes to Consolidated Financial Statements.*

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands Except Per Share Data)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | 2014 (Unaudited) |
| **REVENUE** | | |
| Sales: | | |
| Merchandise | **₱96,728,307** | ₱91,195,732 |
| Real estate | **12,454,732** | 12,107,614 |
| Rent (Notes 13, 20 and 23) | **17,745,278** | 15,940,211 |
| Equity in net earnings of associates and joint ventures (Note 11) | **6,721,876** | 6,548,343 |
| Cinema ticket sales, amusement and others | **3,179,958** | 3,153,270 |
| Dividend, management fees and others | **2,098,329** | 1,919,171 |
| | **138,928,480** | 130,864,341 |
| **COST AND EXPENSES** | | |
| Cost of sales: | | |
| Merchandise (Note 21) | **74,179,439** | 69,337,630 |
| Real estate | **6,775,432** | 6,876,109 |
| Selling, general and administrative expenses | **29,825,363** | 28,819,404 |
| | **110,780,234** | 105,033,143 |
| **OTHER INCOME (CHARGES)** | | |
| Interest expense | **(5,458,831)** | (5,516,961) |
| Interest income | **1,552,415** | 1,540,333 |
| Loss on fair value changes on derivatives - net (Note 25) | **(137,787)** | (452,471) |
| Foreign exchange gain and others (Note 24) | **183,270** | 262,543 |
| | **(3,860,933)** | (4,166,556) |
| **INCOME BEFORE INCOME TAX** | **24,287,313** | 21,664,642 |
| **PROVISION FOR INCOME TAX** (Note 22) | | |
| Current | **4,374,405** | 3,756,107 |
| Deferred | **97,471** | 201,343 |
| | **4,471,876** | 3,957,450 |
| **NET INCOME** | **₱19,815,437** | ₱17,707,192 |
| **Attributable to** | | |
| Owners of the Parent | **₱13,494,480** | ₱12,310,388 |
| Non-controlling interests | **6,320,957** | 5,396,804 |
| | **₱19,815,437** | ₱17,707,192 |
| **Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent** (Note 26) | **₱16.92** | ₱15.46 |

*See accompanying Notes to Consolidated Financial Statements.*

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands Except Per Share Data)**

| | Three Months Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | 2014 (Unaudited) |
| **REVENUE** | | |
| Sales: | | |
| Merchandise | **₱51,796,463** | ₱49,021,107 |
| Real estate and others | **6,983,916** | 6,991,153 |
| Rent | **9,128,315** | 8,232,690 |
| Equity in net earnings of associates and joint ventures | **3,120,968** | 3,431,877 |
| Cinema ticket sales, amusement and others | **1,772,342** | 1,707,422 |
| Dividends, management fees and others | **1,070,194** | 1,083,386 |
| | **73,872,198** | 70,467,635 |
| **COST AND EXPENSES** | | |
| Cost of sales: | | |
| Merchandise | **39,982,451** | 37,410,323 |
| Real estate and others | **3,840,251** | 3,884,760 |
| Selling, general and administrative expenses | **15,404,382** | 15,464,379 |
| | **59,227,084** | 56,759,462 |
| **OTHER INCOME (CHARGES)** | | |
| Interest expense | **(2,829,808)** | (2,976,241) |
| Interest income | **797,149** | 741,661 |
| Loss on fair value changes on derivatives - net | **(13,311)** | (506,434) |
| Foreign exchange gain and others | **76,041** | 154,880 |
| | **(1,969,929)** | (2,586,134) |
| **INCOME BEFORE INCOME TAX** | **12,675,185** | 11,122,039 |
| **PROVISION FOR INCOME TAX** | | |
| Current | **2,248,445** | 1,968,335 |
| Deferred | **238,945** | 175,544 |
| | **2,487,390** | 2,143,879 |
| **NET INCOME** | **₱10,187,795** | ₱8,978,160 |
| **Attributable to** | | |
| Equity holders of the Parent | **₱6,751,348** | ₱6,070,577 |
| Non-controlling interests | **3,436,447** | 2,907,583 |
| | **₱10,187,795** | ₱8,978,160 |
| **Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent** | **₱8.47** | ₱7.62 |

*See accompanying Notes to Consolidated Financial Statements.*

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | 2014 (Unaudited) |
| **NET INCOME** | **₱19,815,437** | ₱17,707,192 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Items that will be reclassified to profit or loss in subsequent periods** | | |
| Net unrealized gain on available-for-sale investments | **1,417,859** | 3,664,305 |
| Share in unrealized gain (loss) on available-for-sale investments of associates - net (Notes 10 and 11) | **(1,516,770)** | 552,110 |
| Cumulative translation adjustment | **236,238** | (598,767) |
| Income tax relating to items to be reclassified to profit or loss in subsequent periods | **(71,216)** | (789,692) |
| | **66,111** | 2,827,956 |
| **TOTAL COMPREHENSIVE INCOME** | **₱19,881,548** | ₱20,535,148 |
| **Attributable to** | | |
| Owners of the Parent | **₱16,889,581** | ₱14,132,301 |
| Non-controlling interests | **2,991,967** | 6,402,847 |
| | **₱19,881,548** | ₱20,535,148 |

*See accompanying Notes to Consolidated Financial Statements.*

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Three Months Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | 2014 (Unaudited) |
| **NET INCOME** | **₱10,187,795** | ₱8,978,160 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Items that will be reclassified to profit or loss in subsequent periods** | | |
| Net unrealized gain (loss) on available-for-sale investments | **(241,384)** | 1,812,119 |
| Share in unrealized gain (loss) on available-for-sale investments of associates - net (Note 11) | **(1,306,934)** | 234,624 |
| Cumulative translation adjustment of a subsidiary | **302,090** | (655,004) |
| Income tax relating to items to be reclassified to profit or loss in subsequent periods | **(4,593)** | (251,232) |
| | **(1,250,821)** | 1,140,507 |
| **TOTAL COMPREHENSIVE INCOME** | **₱8,936,974** | ₱10,118,667 |
| **Attributable to** | | |
| Owners of the Parent | **₱5,448,370** | ₱6,789,654 |
| Non-controlling interests | **3,488,604** | 3,329,013 |
| | **₱8,936,974** | ₱10,118,667 |

*See accompanying Notes to Consolidated Financial Statements.*

# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

## (Amounts in Thousands Except Per Share Data)

| | Equity Attributable to Owners of the Parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Equity Adjustments from Common Control Transactions** | **Cost of Parent Common Shares Held by Subsidiaries** | **Cumulative Translation Adjustment** | **Net Unrealized Gain on Available-for-Sale Investments** | **Remeasurement Loss on Defined Benefit Asset/ Obligation** | **Appropriated Retained Earnings** | **Unappropriated Retained Earnings** | **Total** | **Non-controlling Interests** | **Total Equity** |
| Balance at December 31, 2014 | **₱7,963,406** | **₱71,952,082** | **(₱1,902,933)** | **(₱25,386)** | **₱866,360** | **₱10,207,259** | **(₱126,530)** | **₱27,000,000** | **₱141,069,856** | **₱257,004,114** | **₱92,944,295** | **₱349,948,409** |
| Net income | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **13,494,480** | **13,494,480** | **6,320,957** | **19,815,437** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **114,725** | **3,280,376** | **–** | **–** | **–** | **3,395,101** | **(3,328,990)** | **66,111** |
| Total comprehensive income | **–** | **–** | **–** | **–** | **114,725** | **3,280,376** | **–** | **–** | **13,494,480** | **16,889,581** | **2,991,967** | **19,881,548** |
| Conversion of convertible bonds | **67,148** | **4,833,081** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,900,229** | **–** | **4,900,229** |
| Cash dividends - ₱10.61 per share | – | – | – | – | – | – | – | – | **(8,520,406)** | **(8,520,406)** | – | **(8,520,406)** |
| Decrease in previous year's non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(347,086)** | **(347,086)** |
| Cash dividends received by non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(3,057,051)** | **(3,057,051)** |
| Balance at June 30, 2015 | **₱8,030,554** | **₱76,785,163** | **(₱1,902,933)** | **(₱25,386)** | **₱981,085** | **₱13,487,635** | **(₱126,530)** | **₱27,000,000** | **₱146,043,930** | **₱270,273,518** | **₱92,532,125** | **₱362,805,643** |
| | | | | | | | | | | | | |
| Balance at December 31, 2013 | ₱7,962,723 | ₱57,799,360 | (₱2,584,210) | (₱25,386) | ₱1,233,177 | ₱7,338,500 | (₱195,074) | ₱27,000,000 | ₱120,904,727 | ₱219,433,817 | ₱80,807,031 | ₱300,240,848 |
| Net income | – | – | – | – | – | – | – | – | 12,310,388 | 12,310,388 | 5,396,804 | 17,707,192 |
| Other comprehensive income | – | – | – | – | (323,295) | 2,145,208 | – | – | – | 1,821,913 | 1,006,043 | 2,827,956 |
| Total comprehensive income | – | – | – | – | (323,295) | 2,145,208 | – | – | 12,310,388 | 14,132,301 | 6,402,847 | 20,535,148 |
| Common control transactions | – | – | 727,952 | – | – | – | – | – | – | 727,952 | – | 727,952 |
| Cash dividends – ₱10.34 per share | – | – | – | – | – | – | – | – | (8,233,455) | (8,233,455) | – | (8,233,455) |
| Increase in previous year's non-controlling interests | – | – | – | – | – | – | – | – | – | – | 481,815 | 481,815 |
| Cash dividends received by non-controlling interests | – | – | – | – | – | – | – | – | – | – | (2,569,823) | (2,569,823) |
| Balance at June 30, 2014 | ₱7,962,723 | ₱57,799,360 | (₱1,856,258) | (₱25,386) | ₱909,882 | ₱9,483,708 | (₱195,074) | ₱27,000,000 | ₱124,981,660 | ₱226,060,615 | ₱85,121,870 | ₱311,182,485 |

*See accompanying Notes to Consolidated Financial Statements.*

## SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Amounts in Thousands)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2015** | 2014 |
| | **(Unaudited)** | (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱24,287,313** | ₱21,664,642 |
| Adjustments for: | | |
| Equity in net earnings of associates and joint ventures (Note 11) | **(6,721,876)** | (6,548,343) |
| Interest expense | **5,458,831** | 5,516,961 |
| Depreciation and amortization (Notes 12 and 13) | **5,557,204** | 5,502,503 |
| Interest income | **(1,552,415)** | (1,540,333) |
| Loss on fair value changes on derivatives - net (Note 25) | **137,787** | 452,471 |
| Dividend, management fees and others | **(111,930)** | (50,868) |
| Unrealized foreign exchange gain and others | **84,383** | (48,119) |
| Income before working capital changes | **27,139,297** | 24,948,914 |
| Decrease (increase) in: | | |
| Land and development | **(5,230,162)** | (13,242,476) |
| Other current assets | **6,093,196** | 563,050 |
| Merchandise inventories | **(1,000,566)** | (550,293) |
| Receivables | **(2,241,412)** | 216,968 |
| Increase (decrease) in: | | |
| Accounts payable and other current liabilities | **(7,420,716)** | (7,787,765) |
| Tenants' deposits and others | **1,574,297** | 1,255,803 |
| Net cash generated from operations | **18,913,934** | 5,404,201 |
| Income tax paid | **(4,188,994)** | (3,871,253) |
| Net cash provided by operating activities | **14,724,940** | 1,532,948 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of: | | |
| Property and equipment | **40,130** | 77,856 |
| Investment properties | **11,159** | 25,222 |
| Available-for-sale investments | **50,173** | 2,150,831 |
| Additions to: | | |
| Investment properties (Note 13) | **(20,478,526)** | (17,527,476) |
| Property and equipment (Note 12) | **(2,087,273)** | (2,001,149) |
| Available-for-sale investments | **(534,891)** | (1,325,630) |
| Investments in associates and joint ventures (Note 11) | **(15,508,476)** | (1,899,792) |
| Increase (decrease) in: | | |
| Other noncurrent assets | **821,458** | 7,689,298 |
| Time deposits | **(2,419,446)** | (14,371,717) |
| Dividends received | **2,315,382** | 1,536,602 |
| Interest received | **1,536,252** | 1,571,367 |
| Net cash used in investing activities | **(36,254,058)** | (24,074,588) |

*(Forward)*

| | Six Months Ended June 30 | |
|---|---|---|
| | **2015** | 2014 |
| | **(Unaudited)** | (Audited) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Availments of: | | |
| Long-term debt | **₱5,324,809** | ₱48,011,250 |
| Bank loans | **10,720,000** | 8,875,442 |
| Payments of: | | |
| Long-term debt | **(3,463,955)** | (11,766,391) |
| Bank loans | **(6,265,000)** | (10,963,341) |
| Interest | **(5,592,034)** | (5,388,011) |
| Dividends | **(11,669,774)** | (10,672,452) |
| Net cash provided by (used in) financing activities | **(10,945,954)** | 18,096,497 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(32,475,072)** | (4,445,143) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(14,996)** | (45,973) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **69,133,381** | 50,209,657 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **₱36,643,313** | ₱45,718,541 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

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

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

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

## 2. Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation
The Group is considered to have control over an investee, if and only if, the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Group's voting rights and potential voting rights.

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments 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 Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

| | | Percentage of Ownership | | | |
|---|---|---|---|---|---|
| | | **June 30, 2015** | | December 31, 2014 | |
| Company | Principal Activities | **Direct** | **Indirect** | Direct | Indirect |
| **Property** | | | | | |
| SM Prime Holdings, Inc. (SM Prime) and Subsidiaries | Real estate development | **49** | **1** | 49 | 1 |
| SM Development Corporation (SMDC) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Magenta Legacy, Inc. (Magenta) | Real estate development | **–** | **100** | – | 100 |
| Associated Development Corporation | Real estate development | **–** | **100** | – | 100 |
| Highlands Prime, Inc. (HPI) | Real estate development | **–** | **100** | – | 100 |
| Summerhills Home Development Corp. (SHDC) | Real estate development | **–** | **100** | – | 100 |
| CHAS Realty and Development Corporation (CHAS) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Costa del Hamilo, Inc. (Costa) and Subsidiary | Real estate development | **–** | **100** | – | 100 |
| Prime Metro Estate, Inc. (PMI) | Real estate development | **–** | **100** | – | 100 |
| Rappel Holdings, Inc. (Rappel) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| SM Arena Complex Corporation (SM Arena) | Conventions | **–** | **100** | – | 100 |
| SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries | Hotel and tourism | **–** | **100** | – | 100 |
| Tagaytay Resort Development Corporation (TRDC) | Real estate development | **–** | **100** | – | 100 |
| Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries | Real estate development | **100** | **–** | 100 | – |

*(Forward)*

| Company | Principal Activities | Percentage of Ownership June 30, 2015 Direct | June 30, 2015 Indirect | December 31, 2014 Direct | December 31, 2014 Indirect |
|---|---|---|---|---|---|
| Belleshares Holdings, Inc. (BHI) (formerly SM Commercial Properties, Inc.) and Subsidiaries | Real estate development | **59** | **40** | 59 | 40 |
| Intercontinental Development Corporation (ICDC) | Real estate development | **97** | **3** | 97 | 3 |
| Prime Central, Inc. (Prime Central) and Subsidiaries | Real estate development | **100** | **–** | 100 | – |
| Bellevue Properties, Inc. | Real estate development | **62** | **–** | 62 | – |
| Net Group | Real estate development | **90** | **–** | 90 | – |
| Sto. Roberto Marketing Corp. (Sto. Roberto) | Real estate development | **100** | **–** | 100 | – |
| Nagtahan Property Holdings, Inc. (formerly AD Farming) | Real estate development | **100** | **–** | 100 | – |
| **Retail** | | | | | |
| SM Retail, Inc. (SM Retail) and Subsidiaries | Retail | **100** | **–** | 100 | – |
| **Others** | | | | | |
| Primebridge Holdings, Inc. (Primebridge) | Investment | **80** | **20** | 80 | 20 |
| Asia Pacific Computer Technology Center, Inc. | Education | **52** | **–** | 52 | – |
| Multi-Realty Development Corporation (MRDC) | Investment | **91** | **–** | 91 | – |
| Henfels Investments Corp. | Investment | **99** | **–** | 99 | – |

*The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines.*

## 3. Summary of Significant Accounting Policies, Changes and Improvements

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

<u>Cash and Cash Equivalents</u>
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 and are subject to an insignificant risk of change in value.

<u>Time Deposits and Short-term Investments</u>
Time deposits and short-term investments are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

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

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

The 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 the market participants act in their best economic interest.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

Financial Instruments

*Date of Recognition*
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and derecognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Derivatives are recognized on a trade date basis.

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

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, 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.

*"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 Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and

model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account. Interest income earned on investment held for trading are recognized in "Interest income" account in the consolidated statement of income.

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

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

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

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

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

*HTM Investments*
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest

method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months from reporting period. Otherwise, these are classified as noncurrent assets.

*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 sheet. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income under “Net unrealized gain (loss) on available-for-sale investments” account until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period. Otherwise, they are classified as noncurrent.

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

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

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

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

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

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

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

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

*Debt Issue Cost*
Debt issue cost is presented as a reduction in long-term debt and amortized over the term of the related borrowings using the effective interest method.

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

*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 statement of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as “Cumulative translation adjustment” account in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statement of income under “Gain (loss) on fair value changes on derivatives - net” account.

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

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as “Cumulative translation adjustment” is retained in the other comprehensive income until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statement of comprehensive income is recognized immediately in the consolidated statement of income.

*Other Derivative Instruments Not Accounted for as Hedges*
Certain freestanding derivative instruments that provide economic hedges under the Group’s policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under “Gain (loss) on fair value changes on derivatives - net” account in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

*Derecognition of Financial Assets and Liabilities*

*Financial Assets.* A financial asset is derecognized when:

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

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

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

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

*Impairment of Financial Assets*
The Group assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after

the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.  Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

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

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

<u>Land and Development and Condominium Units for Sale</u>
Land and development and condominium units for sale are stated at the lower of cost and net realizable value. Cost includes those costs incurred for development and improvement of the properties. 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 includes properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost incurred for the development and improvement of the properties includes the following:

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

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the 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 is similar to those necessary to determine control over subsidiaries.

The Group's investments in 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 sheet at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

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

a. goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,
b. any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then, recognizes the loss in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. 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 related interest incurred during the construction.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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

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

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment losses are removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Properties

Investment properties include property that are held to earn rentals and for capital appreciation and property under construction or re-development. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to current operations.

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

| | |
|---|---|
| Land improvements | 3-5 years |
| Land use rights | 40-60 years |
| Buildings and improvements | 10-40 years |
| Building equipment, furniture and others | 3-15 years |

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

Investment property is derecognized when disposed or 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 charged to profit or loss.

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

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

Construction in Progress

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

Tenants' Deposits

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

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

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

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

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

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

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

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

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

*Acquisitions of Non-controlling Interests.* Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and 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.

Goodwill

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

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

*Impairment Testing of Goodwill.* For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's 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 Group at which the goodwill is monitored for internal management purposes; and,

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

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

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

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

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

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

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

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

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

Capital Stock

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

Revenue and Cost Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties.

*Sale of Merchandise Inventories*. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at sales shown in the consolidated statement of income.

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

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

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

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

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

Revenue from construction contracts are recognized using the POC method, measured principally on the basis of the estimated physical completion of the contract work.

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.

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

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

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

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

*Management and Service Fees.* Revenue and expense is recognized when earned and incurred, respectively, 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.

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

<u>Pension Benefits</u>
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, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and,
- Remeasurements of net defined benefit liability or asset.

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

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

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

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

Foreign Currency-denominated Transactions
Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are recognized in profit or loss.

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is

dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

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

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

Provisions

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

Borrowing Costs

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

Taxes

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to owners of the

Parent by the weighted-average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Contingencies

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

Events after the Reporting Period

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to standards, new interpretation and improvements, starting January 1, 2015.

Effective January 1, 2015

*PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans, this amendment would be relevant to the Group since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) include the following:
- *PFRS 2, Share-based Payment – Definition of Vesting Condition.* This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.
- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment 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*. The Group 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.* The amendments clarify the following:
  - An entity must disclose the judgments 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.

- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization.* The amendment clarifies 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.
- *PAS 24, Related Party Disclosures – Key Management Personnel.* The amendment 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.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) include the following:

- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that joint arrangements, not just joint ventures, are outside the scope of PFRS 3 and the scope exception applies only to the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement – Portfolio Exception.* The amendment 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 PAS 39.
- *PAS 40, Investment Property.* The amendment clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a 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).

## 4. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

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

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

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

The BOD (Chief Operating Decision Maker) 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.

Operating Segment Financial Data

| | **June 30, 2015** | | | | |
|---|---|---|---|---|---|
| | **Property** | **Retail** | **Financial Services and Others** | **Eliminations** | **Consolidated** |
| | | | *(In Thousands)* | | |
| Revenue: | | | | | |
| External customers | **₱34,163,657** | **₱98,169,111** | **₱6,595,712** | **₱–** | **₱138,928,480** |
| Inter-segment | **10,804,333** | **17,198** | **11,203,259** | **(22,024,790)** | **–** |
| | **₱44,967,990** | **₱98,186,309** | **₱17,798,971** | **(₱22,024,790)** | **₱138,928,480** |
| Segment results: | | | | | |
| Income before income tax | **₱23,028,433** | **₱4,612,885** | **₱ 7,482,811** | **(₱10,836,816)** | **₱24,287,313** |
| Provision for income tax | **(3,084,701)** | **(1,350,401)** | **(36,774)** | **–** | **(4,471,876)** |
| Net income | **₱19,943,732** | **₱3,262,484** | **₱7,446,037** | **(₱10,836,816)** | **₱19,815,437** |
| Net income attributable to: | | | | | |
| Owners of the Parent | **₱19,641,992** | **₱3,104,595** | **₱7,446,037** | **(₱16,698,144)** | **₱13,494,480** |
| Non-controlling interests | **301,740** | **157,889** | **–** | **5,861,328** | **6,320,957** |

| | June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Property | Retail | Financial Services and Others | Eliminations | Consolidated |
| | | | *(In Thousands)* | | |
| Revenue: | | | | | |
| External customers | ₱32,568,881 | ₱92,600,724 | ₱5,694,736 | ₱– | ₱130,864,341 |
| Inter-segment | 3,412,393 | 845 | 10,739,139 | (14,152,377) | – |
| | ₱35,981,274 | ₱92,601,569 | ₱16,433,875 | (₱14,152,377) | ₱130,864,341 |
| Segment results: | | | | | |
| Income before income tax | ₱13,277,904 | ₱4,154,348 | ₱4,563,966 | (₱331,576) | ₱21,664,642 |
| Provision for income tax | (2,628,441) | (1,287,220) | (41,789) | – | (3,957,450) |
| Net income | ₱10,649,463 | ₱2,867,128 | ₱4,522,177 | (₱331,576) | ₱17,707,192 |
| Net income attributable to: | | | | | |
| Owners of the Parent | ₱10,397,435 | ₱2,754,510 | ₱4,522,177 | (₱5,363,734) | ₱12,310,388 |
| Non-controlling interests | 252,028 | 112,618 | – | 5,032,158 | 5,396,804 |

## 5. Cash and Cash Equivalents

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cash on hand and in banks (see Note 20) | **₱5,582,268** | ₱9,428,922 |
| Temporary investments (see Notes 18 and 20) | **31,061,045** | 59,704,459 |
| | **₱36,643,313** | ₱69,133,381 |

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

## 6. Time Deposits

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Current portion | **₱9,085,850** | ₱9,000,324 |
| Noncurrent portion | **50,380,080** | 47,579,390 |
| | **₱59,465,930** | ₱56,579,714 |

The time deposits as at June 30, 2015 and December 31, 2014 bear annual interest ranging from 1.0% to 4.9%.

## 7. Investments Held for Trading and Sale

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Investments held for trading - | | |
| Bonds | **₱299,327** | ₱307,835 |
| AFS investments (see Note 10): | | |
| Bonds and corporate notes | **–** | 986,742 |
| Shares of stock | | |
| Listed | **₱683,874** | ₱2,890,592 |
| Unlisted | **–** | 5,280 |
| | **683,874** | 3,882,614 |
| | **₱983,201** | ₱4,190,449 |

The Group recognized a loss of ₱0.5 million and ₱4.1 million from fair value adjustments of investments held for trading for the six months ended June 30, 2015 and 2014, respectively. The amounts are included under “Dividend, management fees and others” account in the consolidated statement of income.

## 8. Receivables

This account consists of receivable from tenants and real estate buyers (net of noncurrent portion), due from related parties, management and service fees, and dividends.

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units, at various terms of payment.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

Allowance for impairment loss amounting to ₱430.5 million and ₱364.8 million as at June 30, 2015 and December 31, 2014, respectively, pertains to receivables from tenants which were identified through specific assessment.

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

## 9. Other Current Assets

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Land and development (see Note 14) | **₱14,173,950** | ₱19,571,526 |
| Condominium units for sale (see Note 14) | **10,412,701** | 7,600,260 |
| Prepaid taxes and other prepayments | **6,893,339** | 6,839,583 |
| Advances and deposits | **4,240,749** | 4,421,476 |
| Non-trade receivables | **3,138,878** | 10,994,304 |
| Input tax | **3,111,854** | 2,995,345 |
| Receivable from banks and credit cards | **667,945** | 1,625,671 |
| Escrow fund (see Note 15) | **₱623,191** | ₱667,778 |
| Accrued interest receivable | **489,658** | 473,422 |
| Advances for project development (see Note 20) | – | 16,467 |
| Others | **596,127** | 615,591 |
| | **₱44,348,392** | ₱55,821,423 |

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell 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.
- Accrued interest receivable relates mostly to time deposits and are normally collected within the next financial year.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

## 10. Available-for-Sale Investments

This account consists of investments in shares of stock and corporate bonds, net of allowance for impairment losses amounting to ₱31.3 million as at June 30, 2015 and December 31, 2014.

Investments in bonds and corporate notes as at June 30, 2015 and December 31, 2014 include third party bonds and corporate notes with fixed interest rates ranging from 3.9% to 7.5% and

3.9% to 8.3%, respectively. These investments will mature on various dates beginning February 2015 until October 2023.

Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares.

## 11. **Investments in Associates and Joint Ventures**

The movements in this account follow:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cost: | | |
| Balance at beginning of year | **₱95,151,355** | ₱96,600,517 |
| Additions | **15,508,476** | 1,925,455 |
| Disposals | **–** | (3,374,617) |
| Reclassifications | **1,719,034** | – |
| Balance at end of period | **112,378,865** | 95,151,355 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **50,334,664** | 42,393,849 |
| Equity in net earnings | **6,721,876** | 13,225,022 |
| Dividends received | **(4,267,532)** | (4,509,077) |
| Accumulated equity in net earnings of investments sold | – | (1,210,251) |
| Balance at end of period | **52,789,008** | 49,899,543 |
| Share in net unrealized gain (loss) on AFS investments of associates | **(1,516,770)** | 435,121 |
| | **51,272,238** | 50,334,664 |
| Translation adjustment | **(3,100)** | (9,845) |
| | **₱163,648,003** | ₱145,476,174 |

The major associates and joint venture of the Group follow:

| | Percentage of Ownership | | | | |
|---|---|---|---|---|---|
| | **June 30, 2015** | | December 31, 2014 | | |
| Company | **Gross** | **Effective** | Gross | Effective | Principal Activities |
| **Associates** | | | | | |
| BDO Unibank, Inc. and Subsidiaries (BDO) | **47** | **45** | 47 | 45 | Financial services |
| China Banking Corporation and Subsidiaries (China Bank) | **22** | **20** | 22 | 20 | Financial services |
| Belle Corporation and Subsidiaries (Belle) | **32** | **28** | 32 | 28 | Real estate development and tourism |
| Atlas Consolidated Mining, Inc. (Atlas) | **29** | **29** | 29 | 29 | Mining |
| Sodexo Motivation Solutions Philippines, Inc. | **40** | **40** | 40 | 40 | Retail |
| Fast Retailing Philippines, Inc. | **25** | **25** | 25 | 25 | Retail |
| CityMall Commercial Centers, Inc. (CityMall) | **34** | **34** | 34 | 34 | Real estate development and tourism |
| Ortigas and Company Limited Partnership (OCLP) | **40** | **40** | – | – | Mixed-use property development |
| Fei Hua Real Estate Company (FHREC) | **50** | **50** | 50 | 50 | Residential property development |
| **Joint Venture** | | | | | |
| Waltermart Mall | **51** | **25** | 51 | 25 | Shopping mall development |

CityMall
On February 17, 2014, SMIC signed an Investment and Shareholders Agreement for the acquisition of 34.0% ownership interest in CityMall for an initial investment of ₱0.34 million. The remaining 66.0% of the outstanding capital is held by DoubleDragon Properties Corp.

On April 25, 2014, SMIC, in response to a capital call, invested an additional ₱103.0 million equivalent to 1.0 million shares in CityMall.

China Bank
In March 2014, China Bank had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every 8.834 common shares held as at record date at an offer price of ₱49.50 per rights share. As at May 5, 2014, SMIC exercised its rights share and paid ₱1,383.6 million equivalent to 28.0 million China Bank shares.

In May 2014, China Bank declared a stock dividend equivalent to 8% of the outstanding capital stock of China Bank, which increased the number of common shares held by SMIC to 22.0 million. The shares were issued on October 15, 2014.

BDO
In 2014, MRDC sold 71.6 million BDO shares for ₱7,403.7 million at ₱104.0 per share resulting to a gain on sale of ₱2,863.4 million.

Atlas
In 2015 and 2014 Primebridge acquired 7.4 millon and 2.2 million shares of Atlas for a total consideration of ₱64.2 million and ₱25.7 million, respectively.

OCLP
The carrying value of investment in OCLP, a company that owns strategic landbank areas in key cities in Metro Manila, amounted to ₱15,433.0 million as at June 30, 2015.

FHREC
The carrying value of investment in FHREC, a company incorporated in China, amounted to ₱756.0 million as at June 30, 2015 and December 31, 2014, with cumulative equity in net earnings amounting to ₱478.0 million and ₱473.0 million as at June 30, 2015 and December 31, 2014, respectively.

Waltermart Mall
The carrying value of investment in Waltermart Mall amounted to ₱5,356.0 million and ₱5,302.0 million as at June 30, 2015 and December 31, 2014, respectively, with cumulative equity in net earnings amounting to₱241.0 million and ₱187.0 million as at June 30, 2015 and December 31, 2014, respectively.

Fair values of investments in associates which are listed in the PSE are as follows:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| BDO | **₱194,469,446** | ₱196,965,081 |
| China Bank | **17,541,609** | 18,199,904 |
| Belle | **11,022,971** | 16,334,039 |
| Atlas | **4,029,367** | 6,148,415 |

## 12. Property and Equipment

The movements in this account follow:

| | Buildings, Condominium Units and Improvements | Store Equipment and Improvements | Data Processing Equipment | Furniture, Fixtures and Office Equipment | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(In Thousands)* | | | | |
| **Cost** | | | | | | | | | |
| Balance as at December 31, 2013 | ₱4,405,866 | ₱11,039,017 | ₱4,623,449 | ₱4,614,627 | ₱3,651,578 | ₱7,703,423 | ₱686,694 | ₱1,327,354 | ₱38,052,008 |
| Additions | 1,041,481 | 265,057 | 342,848 | 617,733 | 544,813 | 801,759 | 52,437 | 856,692 | 4,522,820 |
| Reclassifications | 5,714,488 | (8,595,757) | 140,156 | 627,358 | 273,524 | 3,600,135 | 19,500 | (776,085) | 1,003,319 |
| Disposals/retirements | (108,430) | (4,953) | (30,884) | (33,948) | (58,338) | (158,692) | (2,764) | (141,458) | (539,467) |
| Balance as at December 31, 2014 | 11,053,405 | 2,703,364 | 5,075,569 | 5,825,770 | 4,411,577 | 11,946,625 | 755,867 | 1,266,503 | 43,038,680 |
| Additions | 235,460 | 123,404 | 251,528 | 296,121 | 225,634 | 787,171 | 16,862 | 151,093 | 2,087,273 |
| Reclassifications | (2,707,110) | (10,712) | 996,500 | (512,726) | (1,003,226) | 2,774,182 | 12,905 | (265,070) | (715,257) |
| Disposals/retirements | (2,801) | (163) | (16,912) | (34,557) | (20,125) | (5,644) | (4,116) | (1,139) | (85,457) |
| **Balance as at June 30, 2015** | **₱8,578,954** | **₱2,815,893** | **₱6,306,685** | **₱5,574,608** | **₱3,613,860** | **₱15,502,334** | **₱781,518** | **₱1,151,387** | **₱44,325,239** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| Balance as at December 31, 2013 | ₱1,330,044 | ₱7,187,710 | ₱3,198,418 | ₱2,639,827 | ₱2,307,582 | ₱2,678,397 | ₱386,650 | ₱– | ₱19,728,628 |
| Depreciation and amortization | 815,286 | 570,652 | 608,958 | 664,357 | 535,333 | 1,334,214 | (239,563) | – | 4,289,237 |
| Reclassifications | 826,353 | (6,086,373) | (78,738) | 40,402 | 38,734 | 4,341,977 | 305,930 | – | (611,715) |
| Disposals/retirements | (78,543) | (3,021) | (16,759) | (27,022) | (50,086) | (92,407) | (2,646) | – | (270,484) |
| Balance as at December 31, 2014 | 2,893,140 | 1,668,968 | 3,711,879 | 3,317,564 | 2,831,563 | 8,262,181 | 450,371 | – | 23,135,666 |
| Depreciation and amortization | 173,050 | 141,107 | 300,705 | 316,847 | 295,848 | 879,632 | 33,204 | – | 2,140,393 |
| Reclassifications | (1,467,959) | (8,240) | (36,338) | (25,378) | 105 | 1,421,298 | 30,250 | – | (86,262) |
| Disposals/retirements | (1,623) | (20) | (10,943) | (14,331) | (15,026) | (2,339) | (4,155) | – | (48,437) |
| **Balance as at June 30, 2015** | **₱1,596,608** | **₱1,801,815** | **₱3,965,303** | **₱3,594,702** | **₱3,112,490** | **₱10,560,772** | **₱509,670** | **₱–** | **₱25,141,360** |
| **Net Book Value** | | | | | | | | | |
| **As at June 30, 2015** | **₱6,982,346** | **₱1,014,078** | **₱2,341,382** | **₱1,979,906** | **₱501,370** | **₱4,941,562** | **₱271,848** | **₱1,151,387** | **₱19,183,879** |
| As at December 31, 2014 | 8,160,265 | 1,034,396 | 1,363,690 | 2,508,206 | 1,580,014 | 3,684,444 | 305,496 | 1,266,503 | 19,903,014 |

## 13. Investment Properties

The movements in this account follow:

| | 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, 2013 | ₱40,137,989 | ₱135,231,202 | ₱28,763,306 | ₱26,330,118 | ₱230,462,615 |
| Additions | 10,256,889 | 8,069,580 | 1,738,300 | 17,422,815 | 37,487,584 |
| Reclassifications | 6,057,326 | 4,054,655 | (5,291,038) | (4,789,397) | 31,546 |
| Translation adjustment | (107,095) | (299,725) | (37,595) | (155,710) | (600,125) |
| Disposals | – | (122,231) | (47,621) | – | (169,852) |
| Balance as at December 31, 2014 | 56,345,109 | 146,933,481 | 25,125,352 | 38,807,826 | 267,211,768 |
| Additions | 9,532,222 | 2,023,269 | 675,239 | 8,247,796 | 20,478,526 |
| Reclassifications | 23,517 | 3,752,970 | 505,493 | (4,143,973) | 138,007 |
| Translation adjustment | 102,704 | 158,702 | 20,504 | 119,865 | 401,775 |
| Disposals | (989) | (1,844) | (86,579) | (1,051) | (90,463) |
| **Balance as at June 30, 2015** | **₱66,002,563** | **₱152,866,578** | **₱26,240,009** | **₱43,030,463** | **₱288,139,613** |
| **Accumulated Depreciation, Amortization and Impairment Loss** | | | | | |
| Balance as at December 31, 2013 | ₱625,890 | ₱24,623,465 | ₱12,480,507 | ₱123,564 | ₱37,853,426 |
| Depreciation and amortization | 304,954 | 4,411,548 | 1,901,886 | – | 6,618,388 |
| Reclassifications | 1,006,644 | 930,670 | (276,046) | – | 1,661,268 |
| Translation adjustment | (9,031) | (43,422) | (15,047) | – | (67,500) |
| Reversal of impairment loss | (199,708) | – | – | – | (199,708) |
| Disposals | – | (49,968) | (33,852) | – | (83,820) |
| Balance as at December 31, 2014 | 1,728,749 | 29,872,293 | 14,057,448 | 123,564 | 45,782,054 |
| Depreciation and amortization | 104,774 | 2,290,500 | 1,021,537 | – | 3,416,811 |
| Reclassifications | – | 20,407 | 52,914 | – | 73,321 |
| Translation adjustment | 7,113 | 26,845 | 8,878 | – | 42,836 |
| Disposals | (79) | – | (79,886) | – | (79,965) |
| **Balance as at June 30, 2015** | **₱1,840,557** | **₱32,210,045** | **₱15,060,891** | **₱123,564** | **₱49,235,057** |
| **Net Book Value** | | | | | |
| **As at June 30, 2015** | **₱64,162,006** | **₱120,656,533** | **₱11,179,118** | **₱42,906,899** | **₱238,904,556** |
| As at December 31, 2014 | 54,616,360 | 117,061,188 | 11,067,904 | 38,684,262 | 221,429,714 |

As at June 30, 2015 and December 31, 2014, the allowance for impairment loss on land and improvements and land use rights, and construction in progress amounted to ₱723.6 million. Allowance for impairment loss amounting to ₱199.7 million was reversed in 2014.

In 2015, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center Sangandaan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Mall of Asia and SM City Iloilo.

The Group has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop, and repair, maintain or enhance these properties.

14. **Land and Development and Condominium Units for Sale**

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Condominium units for sale (see Note 9) | **₱10,412,701** | ₱7,600,260 |
| Land and development: | | |
| Current portion (see Note 9) | **14,173,950** | 19,571,526 |
| Noncurrent portion | **28,702,480** | 26,629,864 |
| | **₱53,289,131** | ₱53,801,650 |

Condominium units for sale pertain to the completed projects of SMDC, HPI, Costa and ICDC.

15. **Intangibles and Other Noncurrent Assets**

Intangibles and other noncurrent assets include Goodwill and Trademarks and brandnames with carrying values of ₱16,270.1 million and ₱6,124.8 million as at June 30, 2015 and December 31, 2014, respectively.

Goodwill is allocated to SM Prime, Supervalue, Inc. (SVI), Super Shopping Market, Inc. (SSMI), PMI, the Net Group and WSI and others as separate CGUs.

Other Noncurrent Assets

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Deposits and advance rentals | **₱10,291,475** | ₱7,463,413 |
| Receivables from real estate buyers | **7,147,605** | 8,341,583 |
| Derivative assets (see Notes 24 and 25) | **2,863,685** | 2,555,708 |
| Deferred input VAT | **2,232,276** | 2,042,045 |
| Long-term note | **925,295** | – |
| Defined benefit asset | **561,684** | 561,160 |
| Escrow fund (see Note 20) | **132,460** | 132,460 |
| Advances for project development (see Note 20) | **44,887** | 48,270 |
| Others | **2,013,651** | 1,882,026 |
| | **₱26,213,018** | ₱23,026,665 |

- Deposits and advance rentals substantially pertain to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to future rentals. Consequently, the said deposits and advance rentals are not remeasured at amortized cost.

- Escrow fund pertains mainly to the amounts deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in

2013. Escrow fund as of June 30, 2015 and December 31, 2014 also include deposits made by SMDC for payments of liability arising from acquisition of land (see Note 9).

- On June 9, 2015, the Parent Company extended a long-term note to Atlas amounting to ₱927.0 million which bear a fixed interest rate of 4.0% per annum, payable semi-annually in arrears. The loan will mature on June 9, 2018 at 104.98%. The loan contains multiple embedded derivatives such as conversion, call and put options. The conversion option pertains to the right of the Parent Company to convert the loan into common shares of the Borrower at the conversion price of 8.29 per share at any time beginning July 21, 2015 until June 2, 2018. The call option pertains to the right of the Borrower to early redeem the loan, in whole but not in part, on or after December 9, 2016 subject to the conditions stated in the loan agreement. The put option pertains to the right of the Parent Company to require the Borrower to redeem all or some of the loan at their prepayment amount on the date fixed for prepayment beginning June 9, 2016.

## 16. Bank Loans

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Parent Company - | | |
| U.S. dollar-denominated loan | **₱1,352,700** | ₱1,341,600 |
| Subsidiaries - | | |
| Peso-denominated loans | **17,006,041** | 12,551,041 |
| | **₱18,358,741** | ₱13,892,641 |

The U.S. dollar-denominated loan amounting to US$30.0 million with peso equivalent of ₱1,352.7 million and ₱1,341.6 million as at June 30, 2015 and December 31, 2014, respectively, bears a fixed interest rate of 1.78% and 1.73% as at June 30, 2015 and December 31, 2014, respectively.

The peso-denominated loans bear annual interest rates ranging from 2.50% to 4.15% and 2.00% to 4.40% as at June 30, 2015 and December 31, 2014, respectively.

These loans have maturities of less than one year (see Note 24).

## 17. Accounts Payable and Other Current Liabilities

This account consists of:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Trade | **₱30,763,080** | ₱40,797,521 |
| Accrued expenses | **9,905,383** | 8,373,934 |
| Nontrade | **6,844,625** | 6,158,423 |
| Payable to government agencies | **3,970,026** | 3,584,157 |

*(Forward)*

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Payable arising from acquisition of land | **₱3,244,887** | ₱3,603,261 |
| Accrued interest | **1,798,538** | 1,606,536 |
| Due to related parties (see Note 20) | **1,023,702** | 1,601,703 |
| Derivative liabilities (see Note 25) | **–** | 1,092,382 |
| Gift checks redeemable and others | **2,476,087** | 3,043,148 |
| | **₱60,026,328** | ₱69,861,065 |

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on 30- to 60-day terms.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to due to related parties is discussed in Note 20.
- Gift checks are redeemable at face value.

## 18. Long-term Debt

This account consists of:

| | Availment date | Maturity date | Interest rate/Term | Security | June 30, 2015 | December 31, 2014 |
|---|---|---|---|---|---|---|
| | | | | | *(In Thousands)* | |
| ***Parent Company*** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Fixed rate bonds | | | | | | |
| US$350.0 million senior bonds | June 10, 2014 | June 10, 2024 | Fixed 4.88% ; semi-annual | Unsecured | **₱15,781,500** | ₱15,652,000 |
| US$500.0 million senior bonds | October 17, 2012 | October 17, 2019 | Fixed 4.25% ; semi-annual | Unsecured | **22,545,000** | 22,360,000 |
| US$400.0 million exchanged bonds | October 13, 2010 | October 13, 2017 | Fixed 5.50% ; semi-annual | Unsecured | **17,456,657** | 17,258,109 |
| Convertible bonds | | | | | | |
| US$250.0 million convertible bonds | February 15, 2012 | February 15, 2017 | Fixed 1.625% ; semi-annual | Unsecured | **–** | 3,695,290 |
| US$300.0 million five-year term loans | June 19, 2013; July 2, 2013 | May 15, 2018 | Floating six-month LIBOR + margin ;semi-annual | Unsecured | **13,527,000** | 13,416,000 |
| Peso-denominated: | | | | | | |
| Seven-year and ten-year retail bonds | | | | | | |
| Series C Bonds | July 16, 2012 | July 16, 2019 | Fixed 6.00% ; semi-annual | Unsecured | **4,648,460** | 4,648,460 |
| Series D Bonds | July 16, 2012 | July 16, 2022 | Fixed 6.94% ; semi-annual | Unsecured | **7,683,810** | 7,683,810 |
| Series E Bonds | May 19, 2014 | May 19, 2021 | Fixed 5.30% ; semi-annual | Unsecured | **11,669,620** | 11,669,620 |
| Series F Bonds | May 19, 2014 | May 19, 2024 | Fixed 5.61% ; semi-annual | Unsecured | **3,330,380** | 3,330,380 |
| Five-year and seven-year retail bonds | | | | | | |
| Series B Bonds | June 25, 2009 | June 25, 2016 | Fixed 9.10% ; semi-annual | Unsecured | **1,000,000** | 1,000,000 |
| Other peso bank loans | April 23, 2013 -June 30, 2014 | January 14, 2019 -June 20, 2024 | Fixed 4.39%-5.4% and PDST-F + margin | Unsecured | **19,002,300** | 20,195,650 |
| ***Subsidiaries*** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Five-year term loans | May 6, 2011 -April 23, 2014 | March 21, 2016 -April 14, 2019 | LIBOR + spread ; semi-annual | Unsecured | 48,246,300 | 43,825,600 |
| Two-year, three-year and five-year bilateral loans | November 30, 2010 -December 7, 2012 | November 30, 2015 -August 30, 2017 | LIBOR + spread ; semi-annual | Unsecured | **3,607,200** | 4,472,000 |
| Other U.S. dollar loans | November 20, 2013 | November 20, 2018 | LIBOR + spread ; semi-annual | Unsecured | **1,127,250** | 1,118,000 |
| Peso-denominated: | | | | | | |
| Five-year, seven-year and ten-year retail bonds | September 1, 2014 | March 1, 2020 - September 1, 2024 | Fixed 5.10%-5.74% ; quarterly | Unsecured | **18,324,206** | 18,273,240 |
| Fixed rate term loans | December 27, 2012 - December 29, 2014 | December 23, 2015 - June 25, 2023 | Fixed 4.00%-5.88% ; semi-annual and quarterly | Unsecured | **23,143,499** | 23,323,000 |
| | July 12, 2014 - July 31, 2014 | July 12, 2021 -July 31, 2021 | Fixed 5.25%-5.27% ; quarterly | Secured | **3,032,609** | 3,000,000 |
| Five-year and ten-year notes | June 19, 2012 | June 20, 2017 -June 19, 2022 | Fixed 6.22%-6.81% ; PDST-F+margin ; quarterly | Unsecured | **7,226,500** | 7,301,000 |
| Five-year, seven-year and ten-year notes | January 12, 2012 | January 13, 2017 -January 12, 2022 | Fixed 5.86%-6.10% ; PDST-F+margin ; quarterly | Unsecured | **4,229,200** | 4,272,800 |

*(Forward)*

| | Availment date | Maturity date | Interest rate/Term | Security | June 30, 2015 | December 31, 2014 |
|---|---|---|---|---|---|---|
| | | | | | *(In Thousands)* | |
| Five-year, seven-year and ten-year corporate notes | December 20, 2010 -June 13, 2011 | December 21, 2015 -December 20, 2020 | Fixed 5.79%-6.65% ; PDST-F+margin ; quarterly | Unsecured | **₱6,528,000** | ₱6,528,000 |
| Five-year floating rate notes | March 18, 2011 -June 23, 2015 | March 19, 2016 -June 23, 2020 | PDST-F + margin ; quarterly | Unsecured | **6,600,000** | 5,650,000 |
| Corporate notes | June 3, 2013 - June 28, 2014 | June 3, 2020 - June 3, 2023 | Fixed 5.25%-5.88% ; semi-annual | Unsecured | **8,683,600** | 8,691,800 |
| Five-year bilateral loans | February 2, 2010 - October 24, 2011 | February 2, 2015 - October 24, 2016 | Fixed 5.00% ; PDST-F+margin ; quarterly | Unsecured | **500,000** | 538,800 |
| Other bank loans | August 15, 2006 - June 8, 2015 | June 24, 2015 - June 8, 2020 | Fixed 9.75% ; PDST-F+margin ; semi-annual and quarterly | Unsecured | **1,525,000** | 1,985,280 |
| | | | | | **249,418,091** | 249,888,839 |
| Less debt issue cost | | | | | **1,890,696** | 2,106,176 |
| | | | | | **247,527,395** | 247,782,663 |
| Less current portion | | | | | **27,252,874** | 10,669,108 |
| | | | | | **₱220,274,521** | ₱237,113,555 |

***Parent Company***

Fixed Rate Bonds
*US$400.0 million Exchanged Bonds*
This issuance is comprised of US$186.3 million additional bonds, US$82.9 million and US$130.8 million exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.00% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%). The carrying amount of the bonds amounted to ₱17,456.7 million and ₱17,258.1 million as at June 30, 2015 and December 31, 2014, respectively.

Convertible Bonds
*US$250.0 million Convertible Bonds*
The convertible bonds have a yield-to-maturity of 2.875% at inception and are due on its maturity at 106.67%. The bonds contain multiple embedded derivatives which were bifurcated at inception (see Note 25).

- Conversion option - Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for the Parent Company's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2015 and 2014, the bondholders of US$98.2 million (₱3,695.3 million) and US$1.0 million (₱37.6 million) opted to convert their holdings into 6,714,759 and 68,378 of SMIC's shares, respectively. As of April 9, 2015, all of the convertible bonds have been converted into SMIC shares.

- Put option - entitles the bondholders to require the Parent Company to redeem all or some of its bonds on February 15, 2015 (put date) at 103.89%.

- Call option - gives to the Parent Company the right to redeem the Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into U.S. dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

Five-year U.S. Dollar Loans
Portion of the loan amounting to US$180.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 24 and 25).

Seven-year and Ten-year Retail Bonds
*Series C Bonds*
At various dates in 2014, the Parent Company redeemed ₱375.0 million of the bonds.

*Series D Bonds*
At various dates in 2014, the Parent Company redeemed ₱375.0 million of the bonds.

Other Peso Bank Loans

- On April 14, 2015, the Parent Company prepaid ₱290.0 million of the ₱3,000.0 million five-year term loan. The outstanding balance as at June 30, 2015 and December 31, 2014 amounted to ₱2,710.0 million and ₱3,000.0 million, respectively.

- In June 2014, the Parent Company obtained two seven-year term loans amounting to ₱1,600.0 million and ₱1,650.0 million. The annual principal repayment of ₱1.0 million will commence on the 12$^{th}$ month from issue date, with the last installment payment to be made at maturity date.

  On March 6, 2015, the Parent Company prepaid ₱900.0 million of the ₱1,650.0 million seven-year term loan. The outstanding balance as at June 30, 2015 and December 31, 2014 amounted to ₱2,349.0 million and ₱3,250.0 million, respectively.

- In August 2013, the Parent Company obtained a seven-year term loan amounting to ₱2,000.0 million. The principal repayment of ₱2.0 million commenced on the 12$^{th}$ month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at June 30, 2015 and December 31, 2014 amounted to ₱1,998.0 millon.

- In April 2013, the Parent Company obtained seven-year and ten-year term loans amounting to ₱2,250.0 million and ₱100.0 million, respectively. The annual principal repayment of ₱2.25 million and ₱0.10 million, respectively, commenced on the 12$^{th}$ month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at June 30, 2015 amounted to ₱2,245.5 million and ₱99.8 million, respectively and as at December 31, 2014 amounted to ₱2,247.8 million and ₱99.9 million, respectively.

***Subsidiaries***

U.S. Dollar-denominated Five-Year Term Loans
This consists of the following:

- US$300.0 million syndicated loan obtained on various dates in 2013. The loan bears an interest rate based on the London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US$150.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 24 and 25).

- US$200.0 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 24 and 25).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- ₱18.3 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 ₱13,309.0 million with a fixed interest rate of 5.10% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362.0 million with a fixed interest rate of 5.20% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602.0 million with a fixed interest rate of 5.74% per annum due on September 1, 2024.

Repayment Schedule

The repayment schedule of long-term debt follows:

| | Gross Loan | Debt Issue Cost | Net |
|---|---|---|---|
| | | *(In Thousands)* | |
| 2015 | ₱9,223,200 | (₱13,984) | ₱9,209,216 |
| 2016 | 25,406,450 | (77,859) | 25,328,591 |
| 2017 | 26,344,807 | (130,167) | 26,214,640 |
| 2018 | 41,991,200 | (546,893) | 41,444,307 |
| 2019 | 54,359,710 | (498,965) | 53,860,745 |
| 2020 | 27,515,866 | (145,795) | 27,370,071 |
| 2021 | 22,977,149 | (155,045) | 22,822,104 |
| 2022 | 13,767,170 | (76,737) | 13,690,433 |
| 2023 | 4,518,960 | (23,555) | 4,495,405 |
| 2024 | 23,313,579 | (221,696) | 23,091,883 |
| | ₱249,418,091 | (₱1,890,696) | ₱247,527,395 |

Covenants

The long-term debts of the Group contain certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to financial ratios namely, (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at June 30, 2015 and December 31, 2014, the Group is in compliance with the terms of its debt covenants.

## 19. Equity

Capital Stock

a. Common stock

| | Number of Shares | |
|---|---|---|
| | **June 30, 2015** | December 31, 2014 |
| Authorized - ₱10 par value per share | **1,190,000,000** | 1,190,000,000 |
| Issued and subscribed: | | |
| Balance at beginning of year | **796,340,646** | 796,272,268 |
| Issuances | **6,714,759** | 68,378 |
| Balance at end of period | **803,055,405** | 796,340,646 |

On various dates in 2015 and 2014, additional 6,714,759 common shares and 68,378 common shares, respectively, were issued as a result of conversion of the Parent Company's convertible bonds (see Note 18). The excess of the conversion price over par value totaling ₱4,833.1 million and ₱47.2 million in 2015 and 2014, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheet.

As at June 30, 2015 and December 31 2014, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

| Date of SEC Approval | Authorized Shares | Number of Shares Issued | Issue/Offer Price |
|---|---|---|---|
| March 22, 2005 | | 105,000,000 | ₱250 |
| November 6, 2007 | | 56,000,000 | 218 |
| June 14, 2007 | 100,000,000 | | 10 |
| April 25, 2007 | | 25,023,038 | 10 |
| October 4, 2010 to March 13, 2012 | | | |
| Conversion of convertible bonds | | 2,851,582 | 453 |
| September 24, 2012 | | 9,100,000 | 700 |
| January 23, 2013 to July 5, 2013 | | | |
| Conversion of convertible bonds | | 7,651,851 | 781 |
| June 14, 2013 | 500,000,000 | | 10 |
| June 24, 2013 | | 157,000,000 | 10 |
| July 12, 2013 | | 657,314 | 10 |
| July 18, 2013 to November 1, 2013 | | | |
| Conversion of convertible bonds | | 738,483 | 625 |
| August 1, 2013 | | 7,250,000 | 900 |
| August 27, 2014 | | 68,378 | 625 |
| January 15, 2015 to April 9, 2015 | | | |
| Conversion of convertible bonds | | 6,714,759 | 625 |

The Parent Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company is 1,239 and 1,237 as at June 30, 2015 and December 31, 2014, respectively.

b. Redeemable preferred shares

| | Number of shares | |
|---|---|---|
| | **June 30, 2015** | December 31, 2014 |
| Authorized - ₱10 par value per share | **10,000,000** | 10,000,000 |

There are no issued and subscribed preferred shares as at June 30, 2015 and December 31, 2014.

Cost of Parent Common Shares Held by Subsidiaries

Details of the cost of common shares held by subsidiaries as at June 30, 2015 and December 31, 2014 follow:

| | Shares held by subsidiaries | Average cost | Cost of common shares held by subsidiaries | Selling price per share | Gain on disposal |
|---|---|---|---|---|---|
| | | | *(In Millions)* | | *(In Millions)* |
| As at December 31, 2011 | 820,491 | ₱320.8 | ₱263.2 | | |
| Sale by SM Land and MRDC | (430,000) | 320.8 | (137.3) | ₱753.3 | ₱184.5 |
| As at December 31, 2012 | 390,491 | 322.4 | 125.9 | | |
| Stock dividends (25%) | 97,623 | – | – | | |
| Sale by SM Land | (389,612) | 257.7 | (100.5) | 952.2 | 267.7 |
| As at June 30, 2015 and December 31, 2014 | 98,502 | ₱257.7 | ₱25.4 | | |

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions mainly pertain to the acquisition of various SM China Companies by SM Prime in 2007 and various service companies by SM Retail in 2009. These acquisitions were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to the pooling of interest method.

In 2013, the Group executed a corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions.

Retained Earnings

a. Appropriated

As at June 30, 2015 and December 31, 2014, retained earnings appropriation is as follows:

| Projects | Timeline | Appropriations |
|---|---|---|
| | | *(In Thousands)* |
| Hotel projects | 2013-2015 | ₱8,000,000 |
| Commercial buildings | 2012-2016 | 10,000,000 |
| Acquisition of investments | 2012-2018 | 9,000,000 |
| | | ₱27,000,000 |

b. Unappropriated

The Parent Company's dividend declarations in 2015 and 2014 follow:

| Declaration Date | Record Date | Payment Date | Cash Dividend per Share | Total Cash Dividends Declared |
|---|---|---|---|---|
| | | | | *(In Thousands)* |
| April 29, 2015 | May 14, 2015 | June 9, 2015 | ₱10.61 | ₱8,520,406 |
| April 30, 2014 | May 30, 2014 | June 26, 2014 | 10.34 | 8,233,455 |

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱144,100.2 million and ₱137,756.2 million as at June 30, 2015 and December 31, 2014, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

## 20. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

a. Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail, banking group and other related parties under common stockholders).

b. Management and Service Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (related parties under common stockholders) for the management of certain office and mall premises. The Group also provides manpower and other services to related parties under common stockholders.

SMIC and SM Retail also receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

c. Dividend Income

The Group earns dividend income from certain related parties under common stockholders.

d. Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

e. Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances as at June 30, 2015 and December 31, 2014 and for the period ended June 30, 2015 and 2014 follow:

| | Amount of Transactions | | Outstanding Amount | | Terms | Conditions |
|---|---|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | December 31, 2014 | | |
| | | | *(In Thousands)* | | | |
| **Banking Group** | | | | | | |
| Cash placement and investment in debt securities | **(₱30,603,585)** | ₱9,288,296 | **₱ 86,509,757** | ₱117,113,342 | Interest bearing 1.00% to 4.92%. | Unsecured; no impairment |
| Interest income | **1,229,838** | 1,220,938 | **360,896** | 436,604 | Interest bearing 1.00% to 4.92%. | Unsecured; no impairment |
| Loans | **(4,246,591)** | 5,697,837 | **9,052,027** | 13,298,618 | Interest-bearing 1.63% to 10.38% | Unsecured |
| Interest expense | **283,985** | 595,413 | **41,385** | 38,903 | Interest-bearing 1.63% to 10.38% | Unsecured |
| Rent income | **323,927** | 297,453 | **201,364** | 181,459 | Noninterest bearing | Unsecured; no impairment |
| Management fee income | **2,005** | 4,720 | **30,645** | 31,437 | Noninterest bearing | Unsecured; no impairment |
| Service income | **124** | 444 | **1,206** | – | Noninterest bearing | Unsecured; no impairment |
| Dividend income | **–** | **–** | **2,492,345** | – | Noninterest bearing | Unsecured; no impairment |
| Escrow Fund | **–** | – | **130,000** | 130,000 | Noninterest bearing | Unsecured; no impairment |
| **Retail Entities under common Stockholders** | | | | | | |
| Rent income | **1,981,754** | 2,079,672 | **679,982** | 1,708,815 | Noninterest bearing | Unsecured; no impairment |
| Management fee income | **165,512** | 218,860 | **125,788** | 196,378 | Noninterest bearing | Unsecured; no impairment |
| Management fee expense | **598,985** | 550,295 | **146,742** | 101,775 | Noninterest bearing | Unsecured; no impairment |
| Dividend income | **–** | **–** | **394,790** | 871,103 | Noninterest bearing | Unsecurehbgd; no impairment |
| Service income | **303,395** | 330,412 | **114,231** | 190,196 | Noninterest bearing | Unsecured; no impairment |
| Due from related parties | **116,811** | (384,742) | **1,310,910** | 1,194,099 | Noninterest bearing | Unsecured |
| Due to related parties | **(578,001)** | (675,758) | **1,023,702** | 1,601,703 | Noninterest bearing | Unsecured |
| Receivable for project development | **–** | (3,231,672) | **–** | – | Noninterest bearing | Unsecured; no impairment |

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties. There have been no guarantees provided or received for any related party receivables or payables.

## 21. **Cost of Merchandise Sales**

This account consists of:

| | **June 30, 2015** | June 30, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Merchandise inventories at beginning of year | **₱14,882,200** | ₱13,232,308 |
| Purchases | **75,180,005** | 69,887,922 |
| Total goods available for sale | **90,062,205** | 83,120,230 |
| Less merchandise inventories at end of period | **15,882,766** | 13,782,600 |
| | **₱74,179,439** | ₱69,337,630 |

## 22. **Income Tax**

The details of the Group's deferred tax assets and liabilities follow:

The deferred tax assets of ₱2,418.0 million and ₱2,293.9 million as at as at June 30, 2015 and December 31, 2014, respectively, represent the tax effects of defined benefit liability, unamortized past service cost, unrealized foreign exchange loss and others, accrued leases, MCIT, unrealized mark-to-market loss on investments, deferred income on sale of real estate and NOLCO.

The deferred tax liabilities of ₱7,160.7 million and ₱6,867.9 million as at June 30, 2015 and December 31, 2014 respectively, consist of the tax effects of trademarks and brand names, capitalized interest, unrealized foreign exchange gain, unrealized gross profit on sale of real estate, accrued/deferred rent income, unrealized mark-to-market gain on investments, and unamortized past service cost and defined benefit asset. The disproportionate relationship between income before income tax and the provision for income tax is due to various factors such as interest income already subjected to final tax, non-deductible interest expense, equity in net earnings of associates, and dividend income exempt from tax.

The Group's consolidated deferred tax assets as at June 30, 2015 and December 31, 2014 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

## 23. **Lease Agreements**

The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits (see Notes 24 and 25).

The Group also leases certain parcels of land where some of its malls are situated.  The terms of the lease are for periods ranging from fifteen to fifty 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.

Tenant's deposits amounted to ₱14,475.9 million and ₱14,032.0 million as at June 30, 2015 and December 31, 2014, respectively.

## 24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits, short-term investments, cash and cash equivalents, non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and approves policies for managing each of these risks.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 18).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (Note 25).

As at June 30, 2015 and December 31, 2014, after taking into account the effect of the swaps, approximately 71% and 68% of the Group's borrowings are kept at a fixed rate of interest.

Foreign Currency Risk

To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options (see Note 25) with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The Group's foreign currency-denominated monetary assets and liabilities amounted to ₱99,260.3 million (US$2,201.4 million) and ₱100,005.3 million (US$2,217.9 million), respectively, as at June 30, 2015, and ₱88,187.1 million (US$1,972.0 million) and ₱108,775.1 million (US$2,423.4 million), respectively, as at December 31, 2014.

As at June 30, 2015 and December 31, 2014, approximately 46.2% and 46.7%, respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱45.09 to US$1.00, and ₱44.72 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of June 30, 2015 and December 31, 2014, respectively.

Liquidity Risk

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets. The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

As part of its liquidity risk management program, the Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

The Group's financial assets, which have maturities of less than 12 months, and used to meet its short-term liquidity needs, include the following:

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cash and cash equivalents | **₱36,643,313** | ₱69,133,381 |
| Current portion of time deposits | **9,085,850** | 9,000,324 |
| Investments held for trading - bonds | **299,327** | 307,835 |
| Current portion of AFS investments - | | |
| Bonds and corporate notes | **–** | 986,742 |

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which comprise of cash and cash equivalents, time deposits, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral. Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at June 30, 2015 and December 31, 2014, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

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

*High Quality*. This pertains to a counterparty who is not expected 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.

Equity Price Risk
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.

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

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

The Group monitors its capital gearing by measuring the following ratios and maintaining them at not lower than 50:50.
- Net interest-bearing debt divided by total capital plus net interest-bearing debt
- Interest-bearing debt divided by total capital plus interest-bearing debt.

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱18,358,741** | ₱13,892,641 |
| Long-term debt | **247,527,395** | 247,782,663 |
| Less: | | |
| Cash and cash equivalents (excluding cash on hand) | **(35,660,562)** | (67,964,569) |
| Time deposits | **(59,465,930)** | (56,579,714) |
| AFS investments (bonds and corporate notes) | **(4,535,192)** | (5,626,784) |
| Investments held for trading - bonds | **(299,327)** | (307,835) |
| Long term notes | **(925,295)** | – |
| Total net interest-bearing debt (a) | **164,999,830** | 131,196,402 |
| Total equity attributable to owners of the Parent | **270,273,518** | 257,004,114 |
| Total net interest-bearing debt and equity attributable to owners of the Parent (b) | **₱435,273,348** | ₱388,200,516 |
| Gearing ratio - net (a/b) | **38%** | 34% |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱18,358,741** | ₱13,892,641 |
| Long-term debt | **247,527,395** | 247,782,663 |
| Total interest-bearing debt (a) | **265,886,136** | 261,675,304 |
| Total equity attributable to owners of the Parent | **270,273,518** | 257,004,114 |
| Total interest-bearing debt and equity attributable to owners of the Parent (b) | **₱536,159,654** | ₱518,679,418 |
| Gearing ratio - gross (a/b) | **50%** | 50% |

## 25. Financial Instruments

Fair Values

The carrying values and estimated fair values of the Group's financial assets and liabilities, by category and by class, except for those with carrying amounts that are reasonable approximations of fair value follow:

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Fair value** | **Quoted Prices in Active Markets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| | | | *(In Thousands)* | | |
| **Assets Measured at Fair Value** | | | | | |
| Financial assets at FVPL - | | | | | |
| Derivative assets | **₱2,863,685** | **₱2,863,685** | **₱–** | **₱2,863,685** | **₱–** |
| **Assets for which Fair Values are Disclosed** | | | | | |
| Loans and receivables: | | | | | |
| Time deposits (including noncurrent portion) | **59,465,930** | **63,343,724** | | | **63,343,724** |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | **47,828,796** | **47,710,347** | | | **47,710,347** |
| | **107,294,726** | **111,054,071** | **–** | **–** | **111,054,071** |
| | **₱110,158,411** | **₱113,917,756** | **₱–** | **₱2,863,685** | **₱111,054,071** |
| **Liabilities Measured at Fair Value** | | | | | |
| Financial Liabilities at FVPL - | | | | | |
| Derivative liabilities | **₱10,132** | **₱10,132** | **₱–** | **₱10,132** | **₱–** |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (including current portion and net of unamortized debt issue cost) | **247,527,395** | **263,414,498** | **–** | **–** | **263,414,498** |
| Tenants' deposits and others * | **22,733,103** | **21,833,347** | **–** | **–** | **21,833,347** |
| | **270,260,498** | **285,247,845** | **–** | **–** | **285,247,845** |
| | **₱270,270,630** | **₱285,257,977** | **₱–** | **₱10,132** | **₱285,247,845** |

** Excluding nonfinancial liabilities amounting to ₱474.1 million as at June 30, 2015.*

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair value | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | *(In Thousands)* | | |
| Assets Measured at Fair Value | | | | | |
| Financial assets at FVPL - | | | | | |
| Derivative assets | ₱2,555,708 | ₱2,555,708 | ₱– | ₱2,555,708 | ₱– |
| Assets for which Fair Values are Disclosed | | | | | |
| Loans and receivables: | | | | | |
| Time deposits (including noncurrent portion) | 56,579,714 | 60,736,045 | – | | 60,736,045 |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | 39,351,403 | 39,264,893 | – | | 39,264,893 |
| | 95,931,117 | 100,000,938 | – | – | 100,000,938 |
| | ₱98,486,825 | ₱102,556,646 | ₱– | ₱2,555,708 | ₱100,000,938 |
| Liabilities Measured at Fair Value | | | | | |
| Financial Liabilities at FVPL - | | | | | |
| Derivative liabilities | ₱1,151,087 | ₱1,151,087 | ₱– | ₱58,705 | ₱1,092,382 |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (including current portion and net of unamortized debt issue cost) | 247,782,663 | 258,583,840 | – | – | 258,583,840 |
| Tenants' deposits and others * | 20,930,951 | 20,646,657 | – | – | 20,646,657 |
| | 268,713,614 | 279,230,497 | – | – | 279,230,497 |
| | ₱269,864,701 | ₱280,381,584 | ₱– | ₱58,705 | ₱280,322,879 |

** Excluding nonfinancial liabilities amounting to ₱475.1 million as at December 31, 2014.*

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 as at June 30, 2015 and December 31, 2014.

Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

Derivative Assets

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Parent: | | |
| Cross-currency swaps | **₱984,148** | ₱922,894 |
| SM Prime: | | |
| Cross-currency swaps | **1,879,537** | 1,602,332 |
| Interest rate swaps | **–** | 30,482 |
| | **₱2,863,685** | ₱2,555,708 |

Derivative Liabilities

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Parent: | | |
| Options arising from convertible bonds | **₱–** | ₱1,092,382 |
| SM Prime: | | |
| Interest rate swaps | **10,132** | 58,705 |
| | **10,132** | 1,151,087 |
| Less current portion | **–** | 1,092,382 |
| Noncurrent portion | **₱10,132** | ₱58,705 |

Derivative Instruments Accounted for as Cash Flow Hedges

*Cross-currency Swaps.* In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) (see Note 18).

Under the floating-to-fixed cross-currency swaps, the hedged U.S. dollar-denominated loans have been converted 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 with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receive floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with 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 six-month period ended June 30, 2015 and 2014.

Details of the hedged loans follow:

| | Outstanding Principal Balance | | Interest Rate | Maturity Date |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| | *(In US$)* | *(In PhP)* | | |
| Parent - | | | | |
| Unsecured loans | US$180,000 | ₱8,116,200 | 6-month US LIBOR + 1.70% | May 15, 2018 |
| SM Prime: | | | | |
| Unsecured loan | 200,000 | 9,018,000 | 6-month US LIBOR + 1.70% | January 29, 2018 |
| Unsecured loan | 150,000 | 6,763,500 | 6-month US LIBOR + 1.70% | March 25, 2018 |

The Group's outstanding cross-currency swaps as at June 30, 2015 follow:

| | Notional Amounts | | Receive | Pay | US$:₱ Rate | Maturity | Fair Value Gain |
|---|---|---|---|---|---|---|---|
| | *(In Thousands)* | | | | | | *(In Thousands)* |
| | *(In US$)* | *(In Ph₱)* | | | | | |
| Parent: | | | | | | | |
| Floating-to-Fixed | US$50,000 | ₱2,059,250 | 6M US LIBOR + 170 bps | 4.05% | ₱41.19 | May 15, 2018 | ₱274,860 |
| Floating-to-Fixed | 60,000 | 2,478,000 | 6M US LIBOR + 170 bps | 4.03% | 41.30 | May 15, 2018 | 324,172 |
| Floating-to-Fixed | 70,000 | 2,888,200 | 6M US LIBOR + 170 bps | 3.98% | 41.26 | May 15, 2018 | 385,116 |
| SM Prime: | | | | | | | |
| Floating-to-Fixed | 150,000 | 6,100,500 | 6M US LIBOR + 170 bps | 3.70% | 40.67 | January 29, 2018 | 874,824 |
| Floating-to-Fixed | 50,000 | 2,033,500 | 6M US LIBOR + 170 bps | 3.70% | 40.67 | January 29, 2018 | 259,942 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 272,977 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 235,828 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 235,966 |

<u>Hedge Effectiveness Results</u>

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 ₱1,941.3 million gain as at June 30, 2015 was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of comprehensive income for the period ended June 30, 2015. Foreign currency translation arising from the hedged loan amounting to ₱196.6 million gain was recognized in the consolidated statement of comprehensive income for the period ended June 30, 2015. A foreign exchange gain equivalent to the same amount was recycled from equity to the consolidated statement of comprehensive income during the same period.

<u>Other Derivative Instruments Not Designated as Accounting Hedges</u>

The Group's interest rate swaps presented by maturity profile follow:

| Year Obtained | Maturity Date | Interest Payment | Notional Amount | Receive | Pay | Aggregate Fair Value June 30, 2015 | Aggregate Fair Value December 31, 2014 |
|---|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | *(In Thousands)* | |
| Floating-to-Fixed | | | | | | | |
| 2013 | June 2015 | Quarterly | ₱349,440 | 3MPDST-F | 3.65%-4.95% | ₱– | (₱1,882) |
| 2011 | March 2015 | Semi-annual | $145,000 | 6 months LIBOR+margin% | 2.91%-3.28% | – | (37,535) |
| 2010 | November 2015 | Semi-annual | $30,000 | 6 months LIBOR+margin% | 3.18% | (10,132) | (19,288) |
| Fixed-to-Floating | | | | | | | |
| 2010 | June 2015 | Quarterly | ₱1,570,560 | 5.44%-7.36% | 3MPDST-F | ₱– | ₱30,482 |

*Interest Rate Swaps.* In 2013, SM Prime entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175.0 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SM Prime's partial prepayment of the underlying Philippine peso loan (see Note 18). As at June 30, 2015 and December 31, 2014, these swaps have ₱2.0 million gain and ₱2.0 million loss, respectively.

In 2011, SM Prime entered into floating to fixed US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into a fixed rate loan with semi-annual payment intervals up to March 2015 (see Note 18). Fair value changes from the matured swap recognized in the unaudited interim consolidated statement of income amounted to ₱38.0 million gain in 2015.

In 2010, SM Prime entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with a nominal amount of US$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment intervals up to November 2015 (see Note 18). As at June 30, 2015 and December 31, 2014, the floating to fixed interest rate swap has a negative fair value of ₱10.0 million and ₱19.0 million, respectively.

- Two Philippine peso interest rate swap agreements with a notional amount of ₱1,000.0 million each, with amortization of ₱10.0 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 18). As at June 30, 2015 and December 31, 2014, the interest rate swaps have positive fair values of ₱31.0 million and ₱31.0 million, respectively.

*Non-deliverable Currency Forwards and Swaps.* In 2015 and 2014, SM Prime 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 statement of income amounted to ₱7.0 million gain in 2015 and ₱12.0 million gain in 2014.

*US$250.0 million Convertible Bonds.* The Parent Company's convertible bonds contain multiple embedded derivatives which were bifurcated and accounted for as a single compound derivative (see Note 18).

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

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| | | *(In Thousands)* |
| Derivative assets (see Note 15) | **₱2,863,685** | ₱2,555,708 |
| Derivative liabilities | **(10,132)** | (1,151,087) |
| Balance at end of period | **₱2,853,553** | ₱1,404,621 |

## 26. EPS Computation

| | **June 30, 2015** | June 30, 2014 |
|---|---|---|
| | *(In Thousands Except Per Share Data)* | |
| Net income attributable to common owners of the Parent (a) | **₱13,494,480** | ₱12,310,388 |
| Weighted average number of common shares outstanding for the period (b) | **797,477** | 796,272 |
| **Basic EPS (a/b)** | **₱16.92** | ₱15.46 |

## 27. **Reclassification**

The comparative information in the consolidated financial statements for the year ended December 31, 2014 and six month period ended June 30, 2014 have been reclassified to conform to the presentation of the financial statements for the period ended June 30, 2015.

**PART 1 FINANCIAL INFORMATION**

## Item 2. Management Discussion and Analysis or Plan of Operation

**Result of Operations**
**For the Six Months Ended June 30, 2015 and 2014**
***(amounts in billion pesos)***

| Accounts | 06 / 30 / 2015 | 06 / 30 / 2014 | % Change |
|---|---|---|---|
| | | | |
| **Revenue** | **P 138.9** | **P 130.9** | **6.2%** |
| Cost and Expenses | 110.8 | 105.0 | 5.5% |
| **Income from Operations** | **28.1** | **25.9** | **9.0%** |
| Other Charges | 3.9 | 4.2 | -7.3% |
| Provision for Income Tax | 4.4 | 4.0 | 13.0% |
| Minority Interest | 6.3 | 5.4 | 17.1% |
| **Net Income Attributable to Equity Holders of the Parent** | **P 13.5** | **P 12.3** | **9.6%** |

*SM Investments Corporation and Subsidiaries (the Group)* reported a *Net Income Attributable to Equity Holders of the Parent* of P13.5 billion and *Revenues* of P138.9 billion in 2015. This represents a 9.6% growth in *Net Income Attributable to Equity Holders of the Parent* and 6.2% growth in *Revenues*.

*Income from Operations* increased by 9.0% to P28.1 billion from P25.8 billion in 2014. *Operating Margin* and *Net Margin* is at 20.3% and 9.7%, respectively.

*Merchandise Sales* grew by 6.1% to P96.7 billion from P91.2 billion in 2014 due partly to the opening of 20 new stores in 2015.

The *Non-Food* and *Food Group* comprised 39% and 61%, respectively, of merchandise sales in 2015 and 40% and 60%, respectively, of merchandise sales in 2014.

As of June 30, 2015, *SM Retail had* 289 stores nationwide, namely: 51 *SM Stores*, 41 *SM Supermarkets*, 127 *SaveMore* stores, 43 *SM Hypermarkets* and 27 *WalterMart* stores.

*Real Estate Sales* increased by 2.9% to P12.5 billion from P12.1 billion in 2014 due to increase in sales take-up and higher construction accomplishments of projects launched from 2010 to 2013 namely, Grace Residences in Taguig, Breeze Residences and Shore Residences in Pasay, Green Residences in Manila, Trees Residences in Quezon City, and Wind Residences in Tagaytay City.

*Real Estate Gross Margin* improved from 43.2% in 2014 to 45.6% in 2015. This is attributable to efficient management, tighter monitoring and control of construction costs.

*Rent Revenues*, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 11.3% to P17.7 billion from P15.9 billion in 2014. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013 and 2014, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province, as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong, *SM Center Angono* in Rizal province and

*SM City Bacolod* in Negros Occidental with a total gross floor area of 652,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from commercial operations also increased due to the opening of SM Cyber West and Five Ecom. Rentals from hotels and convention centers also contributed to the increase due to improvement in average and occupancy rates.

As of June 30, 2015, *SM Prime* had 52 malls in the Philippines and 5 malls in China.

*Cinema Ticket Sales* and *Amusement Revenues* remained at P3.2 billion in 2015 and 2014. The flat growth in cinema ticket sales was partly offset by the increase in amusement revenues. The increase in amusement revenues was due mainly to the opening of Sky Ranch Pampanga, increase in food and beverage income of the Hotel Group as well as increase in sponsorship income.

*Equity in Net Earnings of Associates and Joint Venture*s increased by 2.7% to P6.7 billion from P6.5 billion in 2014. This is attributable to the increase in net income of *BDO* due mainly from the sustained growth in its lending and deposit-taking businesses, notable gains from fee-based and treasury activities and managed operating expenses.

*Dividend, Management Fees and Other Revenues* increased by 9.3% to P2.1 billion in 2015 from P1.9 billion 2014 due mainly to increase in dividends and other revenues. Other revenues comprise mainly of service fees for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets and service income.

*Operating Expenses* increased by 3.5% to P29.8 billion from P28.8 billion in 2014 due mainly to additional operating expenses associated with the construction of new, and/or, expansion of malls, new retail stores, store renovations and real estate projects.

*Other Charges (net)* decreased by 7.3% to P3.9 billion from P4.2 billion in 2014 attributable mainly to the 69.5% decrease in *Loss on Fair Value Changes on Derivatives* to P0.1 billion from P0.5 billion in 2014. This fair value change pertains mainly to the US$250.0 million convertible bonds of SMIC. *Foreign Exchange Gain and Others* remained at P0.2 billion in both periods.

*Provision for Income Tax* increased by 13.0% to P4.5 billion from P4.0 billion in 2014 due to higher taxable income. The effective income tax rate is 18.4% in 2015 and 18.3% in 2014.

*Non-controlling interest* increased by 17.1% to P6.3 billion in 2015 from P5.4 billion in 2014 due to the increase in net income of certain partly-owned subsidiaries.

**Financial Position**
***(amounts in billion pesos)***

| Accounts | 06 / 30 / 2015 | 12 / 31 / 2014 | % Change |
|---|---|---|---|
| Current Assets | P 147.6 | P 184.0 | -19.8% |
| Noncurrent Assets | 573.4 | 527.9 | 8.6% |
| **Total Assets** | **P 721.0** | **P 711.9** | **1.3%** |
| | | | |
| Current Liabilities | P 107.6 | P 96.3 | 11.7% |
| Noncurrent Liabilities | 250.6 | 265.6 | -5.6% |
| **Total Liabilities** | **358.2** | **361.9** | **-1.0%** |
| **Stockholders' Equity** | **362.8** | **350.0** | **3.7%** |
| **Total Liabilities and Stockholders' Equity** | **P 721.0** | **P 711.9** | **1.3%** |

Total *Assets* increased by 1.3% to P721.0 billion from P711.9 billion in 2014. On the other hand, total *Liabilities* decreased by 1.0% to P358.2 billion from P361.9 billion in 2014.

*Current Assets*

*Current Assets* decreased by 19.8% to P147.6 billion from P184.0 billion in 2014.

*Cash and Cash Equivalents* decreased by 47.0% to P36.6 billion from P69.1 billion in 2014 due mainly to new investments in associates and payment of dividends.

*Time Deposits and Short-term Investments* increased by 1.0% to P9.1 billion from P9.0 billion in 2014.

*Investments Held for Trading and Sale* decreased by 76.5% to P1.0 billion from P4.2 billion in 2014 due mainly to available-for-sale (AFS) investments which matured during the period and the reclassification of a certain investment to Investments in associates and joint ventures.

*Receivables* increased by 31.2% to P40.7 billion from P31.0 billion in 2015 due mainly to the P5.1 billion increase in trade receivables resulting from higher construction accomplishments of sold units as well as new sales for the period and increase in dividends receivable mainly from associates and in receivable from tenants.

*Merchandise Inventories* increased by 6.7% to P15.9 billion from P14.9 billion in 2014. The increase is mainly attributable to the Food Group.

*Other Current Assets* decreased by 20.6 % to P44.3 billion from P55.8 billion in 2014 due to the collection of receivable from sale of a portion of the Group's stake in an associate in 2014 and sale of condominium units.

*Noncurrent Assets*

*Noncurrent Assets* increased by 8.6% to P573.4 billion from P527.9 billion in 2014.

*AFS Investments* increased by 12.8% to P21.7 billion from P19.2 billion in 2014 due mainly to increase in market value of certain AFS investments and new AFS investments.

*Investments in Associates and Joint Ventures* increased by 12.5% to P163.6 billion from P145.5 billion in 2014 due mainly to new investments.

*Time Deposits* increased by 5.9% to P50.4 billion from P47.6 billion in 2014. The increase pertains to the proceeds of the AFS bonds which matured during the period.

*Property and Equipment* decreased by 3.6% to P19.2 billion from P19.9 billion in 2014.

*Investment Properties* increased by 7.9% to P238.9 billion from P221.4 billion in 2014. The increase is primarily attributable to ongoing new mall projects located in Cebu City, Cabanatuan, Cagayan de Oro and Caloocan in the Philippines and Zibo and Tianjin in China; ongoing mall expansions and renovations of the SM Mall of Asia and SM City Iloilo; landbanking; and construction costs incurred for ongoing projects of the hotel group namely, Conrad Hotel Manila and Park Inn by Radisson Clark.

*Land and Development* increased by 7.8% to P28.7 billion from P26.6 billion in 2014. The increase pertains to the development cost of ongoing residential projects.

*Deferred Tax Assets* increased by 5.4% to P2.4 billion from P2.3 billion in 2014. The increase pertains to NOLCO.

*Other Noncurrent Assets* increased by 13.8% to P26.2 billion from P23.0 billion in 2014. The increase pertains mainly to the additional bonds and deposits for land acquired and new investment in long-term notes.

*Current Liabilities*

*Current Liabilities* increased by 11.7% to P107.6 billion from P96.3 billion in 2014.

*Bank Loans* increased by 32.1% to P18.4 billion from P13.9 billion in 2014 due mainly to new availments during the period.

*Current Portion of Long-term Debt* increased by 155.4% to P27.2 billion from P10.7 billion in 2014 due mainly to reclassification of maturing loans from noncurrent to current.

*Accounts Payable and Other Current Liabilities* decreased by 14.1% to P60.0 billion from P69.9 billion in 2014 due mainly to settlement of payables for trade transactions.

*Dividends Payable* decreased by 34.9% to P0.2 billion from P0.3 billion in 2014. This mainly represents dividends due to minority stockholders of certain subsidiaries.

*Income Tax Payable* increased by 11.7% to P1.8 billion from P1.6 billion in 2014 due mainly to higher taxable income in 2015.

*Noncurrent Liabilities*

*Noncurrent Liabilities* decreased by 5.6% to P250.6 billion from P265.6 billion in 2014.

*Long-term Debt - Net of Current Portion* decreased by 7.1% to P220.3 billion from P237.1 billion in 2014 due mainly to loans which matured during the period and reclassification to current portion of long-term debt of maturing loans.

*Tenants' Deposits and Others* increased by 7.4% to P23.2 billion from P21.6 billion in 2014. The increase is coming mainly from SM Prime's retention payable and customers' deposits.

*Deferred Tax Liabilities* increased by 4.3% to P7.2 billion from P6.9 billion in 2014.

*Noncurrent Derivative Liability* decreased by 82.7% to P0.01 billion from P0.1 billion in 2014 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans and maturity of various interest rate swaps in March and June 2015.

*Equity*

Total *Equity* increased by 3.7% to P362.8 billion from P350.0 billion in 2014.

*Equity Attributable to Owners of the Parent* increased by 5.2% to P270.3 billion from P257.0 billion in 2014. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 6.7% to P76.8 billion from P72.0 billion in 2014 due to the conversion of US$ bonds to SMIC common shares (b) *Net Unrealized Gain on AFS Investments* which increased by 32.1% to P13.5 billion from P10.2 billion in 2014 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, and, (c) 13.2% increase in *Cumulative Translation Adjustment* relating mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso from P0.9 billion to P1.0 billion in 2015.

*Non-controlling Interests* decreased by 0.4% to P92.5 billion from P92.9 billion in 2014.

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

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

**Key Performance Indicators**

The following are the key financial ratios of the Group for the period ended June 30, 2015 and 2014 and December 31, 2014:

| Accounts | 06 / 30/ 2015 | 12 / 31/ 2014 |
|---|---|---|
| | | |
| Current Ratio | 1.4 | 1.9 |
| Asset to Equity | 2.0 | 2.0 |
| Debt-equity Ratios: | | |
| On Gross Basis | 50 : 50 | 50 : 50 |
| On Net Basis | 38 : 62 | 34 : 66 |

| Accounts | 06 / 30/ 2015 | 06 / 30/ 2014 |
|---|---|---|
| Revenue Growth | 6.2% | 7.2% |
| Net Income to Revenues | 9.7% | 9.4% |
| Net Income Growth | 9.6% | -3.1% |
| Return on Equity | 11.5% | 12.0% |
| EBITDA *(in billions of pesos)* | P33.7B | P31.3B |
| Interest Coverage | 6.2x | 5.7x |

Current ratio decreased to 1.4 from 1.9 in 2014 due mainly to decrease in *Current Assets* of 19.8% coupled with an increase in *Current Liabilities* of 11.7%.

Asset to equity ratio remained at 2.0 in both periods.

Gross debt-equity ratio remained at 50:50 in 2015 and 2014.

Net debt-equity ratio increased to 38:62 from 34:66 in 2014 due to 25.8% increase in net debts from P131.2 billion to P165.0 billion in 2015.

The decrease in revenue growth to 6.2% from 7.2% in 2014 is attributable mainly to higher growth of Merchandise sales, Equity in net earnings, Rental revenues, and Cinema ticket sales, amusement and others in 2014 compared to 2015.

Net income growth increased to 9.6% from -3.1% in 2014 due mainly to lower growth of cost and expenses and other charges in 2015 compared to 2014.

The 50 bps decrease in Return on equity to 11.5% from 12.0% in 2014 is due mainly to higher average equity growth of 9.4%.

EBITDA increased by 7.6% to P33.7 billion from P31.3 billion in 2014.

Interest Coverage increased to 6.2x from 5.7x in 2014 due to higher increase in EBITDA and 1.1% decrease in interest expense.

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

1. Current Ratio: Current Assets / Current Liabilities

2. Asset to Equity Ratio: Total Assets / Total Stockholders' Equity

3. Debt – Equity Ratio

   a. Gross Basis: Total Interest Bearing Debt / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt

   b. Net Basis: Total Interest Bearing Debt less cash and cash equivalents excluding cash on hand, time deposits, investment in bonds held for trading and available for sale / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents excluding cash on hand, time deposits, investments in bonds held for trading and available for sale

4. Revenue Growth: Total Revenues (Current Period) / Total Revenues (Prior Period) - 1

5. Net Income to Revenue: Net Income Attributable to Equity Holders of the Parent / Total Revenues

6. Net Income Growth: Net Income Attributable to Equity Holders of the Parent (Current Period) / Net Income Attributable to Equity Holders of the Parent (Prior Period) - 1

7. Return on Equity: Net Income Attributable to Equity Holders of the Parent (Annualized) / Average Equity Attributable to Equity Holders of the Parent

8. EBITDA: Income from Operations + Depreciation & Amortization

9. Interest Coverage: EBITDA / Interest Expense

**Expansion Plans / Prospects for the Future**

Malls
For the rest of 2015, SM Prime will open 4 new malls, located in SM Seaside City, Cebu; Sangandaan, Caloocan; and Cabanatuan, Nueva Ecija in the Philippines and Zibo in China, and complete the expansion of SM City Iloilo and SM City Lipa. SM Megacenter Cabanatuan in Nueva Ecija was also re-launched last April 2015. By yearend, SM Prime will have 55 malls in the Philippines and 6 in China with an estimated combined gross floor area of 8.3 million square meters.

Residential
For 2015, SMDC plans to launch at least 5 new condominiums consisting of about 12,000 – 15,000 units in the cities of Taguig, Quezon, Mandaluyong, Tagaytay, Las Piñas, Parañaque, and Pasay at the Mall of Asia Complex.

Commercial
SM Prime is currently constructing Three E-com Center which is scheduled for opening in 2017.

Hotels and Convention Centers
Conrad Hotel Manila in the Mall of Asia Complex in Pasay and Park Inn by Radison Clark in Pampanga are expected to open in the last quarter of 2015.

The Property Group’s land banking initiatives will continue in 2015.

For the rest of 2015, the Retail Group will be opening 2 *SM Stores*, 3 *SM Supermarkets*, 10 *SaveMore stores*, 1 *SM Hypermarket* and 5 *WalterMart* stores.

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

## PART I FINANCIAL INFORMATION

### Item 3. Aging of Accounts Receivable – Trade

SM Investments Corporation and Subsidiaries
Aging of Accounts Receivable - Trade
As of June 30, 2015
*(in Thousands)*

| | | |
|---|---|---|
| Receivable from tenants | | |
| Third-party tenants | ₱ | 7,785,303 |
| Related-party tenants | | 1,315,816 |
| Receivable from real estate buyers | | |
| - net of non-current portion | | 27,375,277 |
| Total | ₱ | 36,476,396 |

*Aging:*

| | | |
|---|---|---|
| Neither past due nor impaired | ₱ | 31,840,123 |
| 31-90 days | | 1,135,810 |
| 91-120 days | | 635,043 |
| Over 120 days | | 2,434,924 |
| Impaired | | 430,496 |
| Total | ₱ | 36,476,396 |

**PART II - SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **SM INVESTMENTS CORPORATION**

Date: 08-12-15

**Franklin C. Gomez**
**Senior Vice President – Finance**
**Alternate Corporate Information Officer**