COVER SHEET

16342

SEC Registration Number

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

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

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

Mr. Jose T. Sio

(Contact Person)

857-0100

(Company Telephone Number)

03 31

Month *Day*

(Fiscal Year)

17-Q

(Form Type)

04 30

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

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
1st Quarter Report

Form Type

Amendment Designation (If applicable)

March 31, 2014

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 **March 31, 2014**

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	**796,272,268**	**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

Item 1. Consolidated Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
March 31, 2014 and December 31, 2013
and for the Three Months Ended March 31, 2014 and 2013

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 24 and 25)	**₱37,189,870**	₱50,209,657
Time deposits and short-term investments (Notes 6, 24 and 25)	**28,289,770**	28,912,650
Investments held for trading and sale (Notes 7, 24 and 25)	**2,139,741**	1,118,980
Receivables (Notes 8, 24 and 25)	**30,341,919**	26,637,734
Merchandise inventories - at cost (Note 21)	**13,552,140**	13,232,308
Other current assets (Notes 9, 24 and 25)	**40,051,323**	42,827,624
Total Current Assets	**151,564,763**	162,938,953
Noncurrent Assets		
Available-for-sale investments (Notes 10, 24 and 25)	**16,840,422**	16,499,092
Investments in shares of stock of associates and joint ventures (Note 11)	**140,463,864**	138,994,366
Time deposits (Notes 6, 24 and 25)	**27,337,150**	27,080,950
Property and equipment (Note 12)	**18,496,200**	18,323,380
Investment properties (Notes 13 and 20)	**196,671,843**	192,609,189
Land and development (Note 14)	**24,626,259**	25,666,930
Intangibles (Note 15)	**20,832,179**	20,255,055
Deferred tax assets - net (Note 22)	**2,452,895**	2,172,799
Other noncurrent assets (Notes 15, 24 and 25)	**29,760,445**	28,453,455
Total Noncurrent Assets	**477,481,257**	470,055,216
	₱629,046,020	₱632,994,169
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 16, 18, 24 and 25)	**₱20,472,959**	₱27,588,259
Accounts payable and other current liabilities (Notes 17, 24 and 25)	**52,041,554**	68,088,327
Income tax payable	**2,235,814**	1,612,784
Current portion of long-term debt (Notes 18, 24 and 25)	**37,541,966**	34,566,619
Dividends payable (Notes 24 and 25)	**209,640**	210,189
Total Current Liabilities	**112,501,933**	132,066,178
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18, 24 and 25)	**177,317,836**	175,589,418
Deferred tax liabilities - net (Note 22)	**7,814,882**	6,970,527
Tenants' deposits and others (Notes 15, 24 and 25)	**19,229,626**	18,127,198
Total Noncurrent Liabilities	**204,362,344**	200,687,143
Total Liabilities	**316,864,277**	332,753,321
Equity Attributable to Owners of the Parent		
Capital stock (Note 19)	**7,962,723**	7,962,723
Additional paid-in capital (Note 19)	**57,799,360**	57,799,360
Equity adjustments from common control transactions (Note 19)	**(1,856,258)**	(2,584,210)
Cost of Parent common shares held by subsidiaries (Note 19)	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,289,414**	1,233,177
Remeasurement loss on defined benefit asset/obligation (Note 3)	**(195,074)**	(195,074)
Net unrealized gain on available-for-sale investments (Notes 10 and 11)	**8,385,099**	7,338,500
Retained earnings (Note 19):		
Appropriated	**27,000,000**	27,000,000
Unappropriated	**127,144,538**	120,904,727
Total Equity Attributable to Owners of the Parent	**227,504,416**	219,433,817
Non-controlling Interests	**84,677,327**	80,807,031
Total Equity	**312,181,743**	300,240,848
	₱629,046,020	₱632,994,169

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 March 31	
	2014 (Unaudited)	2013 (Unaudited)
REVENUE		
Sales:		
Merchandise	**₱42,174,625**	₱36,209,807
Real estate	**5,116,461**	5,996,317
Rent (Notes 13, 20 and 23)	**7,707,521**	6,656,970
Equity in net earnings of associates and joint ventures (Note 11)	**3,116,466**	5,649,159
Cinema ticket sales, amusement and others	**1,445,848**	1,101,258
Dividend, management fees and others	**835,785**	1,227,477
	60,396,706	56,840,988
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 21)	**31,927,307**	26,643,941
Real estate	**2,991,349**	3,694,831
Selling, general and administrative expenses	**13,355,025**	11,795,247
	48,273,681	42,134,019
OTHER INCOME (CHARGES)		
Interest expense (Note 24)	**(2,540,720)**	(2,845,525)
Interest income	**798,672**	1,014,463
Gain (loss) on fair value changes on derivatives - net (Notes 18 and 25)	**53,963**	(1,310,743)
Foreign exchange gain and others (Note 24)	**107,663**	235,285
	(1,580,422)	(2,906,520)
INCOME BEFORE INCOME TAX	**10,542,603**	11,800,449
PROVISION FOR INCOME TAX (Note 22)		
Current	**1,787,772**	1,540,472
Deferred	**25,799**	105,990
	1,813,571	1,646,462
NET INCOME	**₱8,729,032**	₱10,153,987
Attributable to		
Owners of the Parent (Note 26)	**₱6,239,811**	₱7,421,180
Non-controlling interests	**2,489,221**	2,732,807
	₱8,729,032	₱10,153,987
Earnings Per Common Share (Note 26)		
Basic	**₱7.84**	₱9.50

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three months ended March 31	
	2014 (Unaudited)	2013 (Unaudited)
NET INCOME	**₱8,729,032**	₱10,153,987
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods		
Net unrealized gain on available-for-sale investments (Note 10)	**1,852,186**	1,186,668
Share in unrealized gain on available-for-sale investments of associates - net (Notes 10 and 11)	**317,486**	4,853,881
Cumulative translation adjustment of a subsidiary	**56,237**	(17,859)
Actuarial losses (Note 3)	**–**	(56,269)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**(538,460)**	59,207
	1,687,449	6,025,628
TOTAL COMPREHENSIVE INCOME	**₱10,416,481**	₱16,179,615
Attributable to		
Owners of the Parent	**₱7,342,647**	₱12,356,572
Non-controlling interests	**3,073,834**	3,823,043
	₱10,416,481	₱16,179,615

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 (Note 19)	Additional Paid-in Capital (Note 19)	Equity Adjustments from Common Control Transactions (Note 19)	Cost of Parent Common Shares Held by Subsidiaries (Note 19)	Cumulative Translation Adjustment of a Subsidiary	Remeasurement Loss on Defined Benefit Asset / Obligation	Net Unrealized Gain on Available-for-Sale Investments (Notes 10 and 11)	Appropriated Retained Earnings (Note 19)	Unappropriated Retained Earnings (Note 19)	Total	Non-controlling Interests	Total Equity
Balance at December 31, 2013	**₱7,962,723**	**₱57,799,360**	**(₱2,584,210)**	**(₱25,386)**	**₱1,233,177**	**(₱195,074)**	**₱7,338,500**	**₱27,000,000**	**₱120,904,727**	**₱219,433,817**	**₱80,807,031**	**₱300,240,848**
Net income for the period	–	–	–	–	–	–	–	–	**6,239,811**	**6,239,811**	**2,489,221**	**8,729,032**
Other comprehensive income	–	–	–	–	**56,237**	–	**1,046,599**	–	–	**1,102,836**	**584,613**	**1,687,449**
Total comprehensive income for the period	–	–	–	–	**56,237**	–	**1,046,599**	–	**6,239,811**	**7,342,647**	**3,073,834**	**10,416,481**
Common control transactions	–	–	**727,952**	–	–	–	–	–	–	**727,952**	–	**727,952**
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	**796,462**	**796,462**
Balance at March 31, 2014	**₱7,962,723**	**₱57,799,360**	**(₱1,856,258)**	**(₱25,386)**	**₱1,289,414**	**(₱195,074)**	**₱8,385,099**	**₱27,000,000**	**₱127,144,538**	**₱227,504,416**	**₱84,677,327**	**₱312,181,743**
Balance at December 31, 2012	**₱6,229,746**	**₱42,858,920**	**(₱2,332,796)**	**(₱125,906)**	**₱266,915**	**₱–**	**₱11,718,559**	**₱35,000,000**	**₱94,458,694**	**₱188,074,132**	**₱73,570,846**	**₱261,644,978**
Net income for the period	–	–	–	–	–	–	–	–	**7,421,180**	**7,421,180**	**2,732,807**	**10,153,987**
Other comprehensive income	–	–	–	–	**(20,357)**	**(40,577)**	**4,996,326**	–	–	**4,935,392**	**1,090,236**	**6,025,628**
Total comprehensive income for the period	–	–	–	–	**(20,357)**	**(40,577)**	**4,996,326**	–	**7,421,180**	**12,356,572**	**3,823,043**	**16,179,615**
Issuance of Parent common shares	**29,514**	**2,928,692**	–	–	–	–	–	–	–	**2,958,206**	–	**2,958,206**
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	**11,415**	**11,415**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(149,120)**	**(149,120)**
Balance at March 31, 2013	**₱6,259,260**	**₱45,787,612**	**(₱2,332,796)**	**(₱125,906)**	**₱246,558**	**(₱40,577)**	**₱16,714,885**	**₱35,000,000**	**₱101,879,874**	**₱203,388,910**	**₱77,256,184**	**₱280,645,094**

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three months ended March 31	
	2014 (Unaudited)	2013 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱10,542,603**	₱11,800,449
Adjustments for:		
Interest expense	**2,540,720**	2,845,525
Depreciation and amortization (Notes 12 and 13)	**2,605,466**	2,257,325
Equity in net earnings of associates and joint ventures (Note 11)	**(3,116,466)**	(5,649,159)
Interest income	**(798,672)**	(1,014,463)
Loss (gain) on fair value changes on derivatives - net (Note 25)	**(53,963)**	1,310,743
Dividend, management fees and others	**(4,192)**	(358,348)
Unrealized foreign exchange gain (loss) and others	**51,822**	(183,244)
Income before working capital changes	**11,767,318**	11,008,828
Decrease (increase) in:		
Land and development	**(1,809,247)**	(3,973,190)
Merchandise inventories	**(319,833)**	177,406
Receivables	**(700,561)**	(1,562,902)
Other current assets	**3,303,462**	696,127
Increase (decrease) in:		
Accounts payable and other current liabilities	**(13,424,236)**	(6,984,637)
Tenants' deposits and others	**1,050,939**	557,646
Net cash used in operations	**(132,158)**	(80,722)
Income tax paid	**(1,170,974)**	(597,831)
Net cash used in operating activities	**(1,303,132)**	(678,553)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Property and equipment	**62,929**	24,556
Available-for-sale investments	**–**	166,453
Investment properties	**25,222**	**–**
Additions to:		
Investment properties (Note 13)	**(8,392,431)**	(3,493,078)
Investments in shares of stock of associates and joint ventures	**(340)**	–
Property and equipment (Note 12)	**(1,455,364)**	(1,815,236)
Decrease (increase) in:		
Other noncurrent assets	**503,133**	(1,134,829)
Time deposits and short-term investments	**892,093**	1,345,827
Interest received	**873,727**	1,474,482
Dividends received (Note 11)	**818,562**	354,772
Net cash used in investing activities	**(6,672,469)**	(3,077,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Long-term debt	**₱5,000,000**	₱9,151,125
Bank loans	–	10,324,138
Payments of:		
Long-term debt	**(1,593,954)**	(10,391,830)
Bank loans	**(7,127,900)**	(14,004,400)
Interest	**(2,200,513)**	(3,038,529)
Dividends paid	**(549)**	–
Increase in Non-controlling interests	**796,462**	11,415
Net cash used in financing activities	**(5,126,454)**	(7,948,081)

(Forward)

	Three months ended March 31	
	2014 (Unaudited)	2013 (Unaudited)
DECREASE IN CASH AND CASH EQUIVALENTS	**(13,102,055)**	(11,703,687)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**82,268**	11,016
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**50,209,657**	60,714,720
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**₱37,189,870**	₱49,022,049

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

2. Basis of Preparation and Statement of Compliance

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

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

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

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

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

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

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

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

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

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

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

		Percentage of Ownership			
		March 31, 2014		December 31, 2013	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**51**	**–**	**51**	**–**
SM Land, Inc. (SM Land) and Subsidiaries*:	Real estate development	**–**	**–**	**–**	**–**
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 and Subsidiaries	Real estate development	**–**	**100**	**–**	**100**
Costa del Hamilo, Inc.	Real estate development	**–**	**100**	**–**	**100**

		Percentage of Ownership			
		March 31, 2014		December 31, 2013	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
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	Conventions	**–**	**100**	**–**	**100**
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	Hotel and tourism	**–**	**100**	**–**	**100**
Tagaytay Resort Development Corporation	Real estate development	**–**	**100**	**–**	**100**
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	Real estate development	**100**	**–**	**100**	**–**
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.) and Subsidiaries	Real estate development	**59**	**40**	**59**	**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.	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**	**–**

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

3. Summary of Significant Accounting Policies, Changes and Improvements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Day 1" Difference. Where the transaction price in a 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 Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

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

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

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

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

AFS Investments. AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income under "Net unrealized gain (loss) on available-for-sale investments" account until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within 12 months after the reporting period and as noncurrent assets if expected date of disposal is more than 12 months after the reporting period.

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

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

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

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

<u>Classification of Financial Instruments Between Liability and Equity</u>
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.

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

<u>Derivative Financial Instruments</u>
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.

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

Cash Flow Hedges. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Cumulative translation adjustment of a subsidiary" in the consolicated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of income under "Gain (loss) on fair value changes on derivatives" account (see Note 25).

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

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

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income (see Note 25). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Merchandise Inventories

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

Land and Development and Condominium Units for Sale

Land and development and condominium units for sale (included under “Other current assets” account in the consolidated balance sheets) are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Cost includes those costs incurred for development and improvement of the properties.

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

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

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

The Group’s investments in shares of stock of associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group’s share in net assets of the associate or joint venture.

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

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

included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

Land improvements	3–5 years
Land use rights	40–60 years
Buildings and improvements	10–35 years
Building equipment, furniture and others	3–15 years

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

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

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

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

Construction in Progress

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

Tenants' Deposits

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

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

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

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

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any 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 statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from business combination under common control" account in the equity section of the consolidated balance sheet.

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

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

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

Acquisitions of 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. Before recognizing a gain on a bargain purchase, the Group determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified.

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

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition-date, allocated to each of the Group's 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 Company tests goodwill acquired in a business combination for impairment at least annually.

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

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

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

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

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

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

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

Capital Stock

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

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Management Fees</u>
Management fees are recognized as expense in accordance with the terms of the agreements.

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

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

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

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

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Costs

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

Taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

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

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

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

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

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Statements and Financial Liabilities* (Amendments)
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*
- PAS 1, *Presentation of Financial Statements* - *Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
- PAS 19, *Employee Benefits* (Revised)
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Philippine Interpretations Committee Q&A No. 2013-03, *Accounting for Employee Benefits under a Defined Contribution Plan Subject to Requirements of Republic Act 7641, The Philippine Retirement Law*
- 2012 improvements to PFRSs, effective 2013.

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

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

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

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

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

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

The Group reviewed its existing employee benefits and determined that the amended standard has an impact on its accounting for pension benefits. The effect of the adoption of the Revised PAS 19 as at January 1, 2013 amounted to ₱38.2 million. This was recorded in the current year profit or loss as reduction pension benefit expense, instead of a retrospective adjustment as required by the Revised PAS 19, as the impact is not material. On this basis, the Group's consolidated statement of financial position at the beginning of the earliest comparative period was also not presented.

The adoption increased earnings per share by ₱0.05 in 2013 (see Note 26). It did not have impact on the consolidated statement of cash flows for the three months ended March 31, 2014.

Future Changes in Accounting Policies

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

New Standards and Interpretations

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

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

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

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

- PAS 32, *Financial Instruments: Presentation* - *Offsetting Financial Assets and Financial Liabilities* (Amendments). The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

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

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

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

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition.* The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment in future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

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

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

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance as it does not have property, plant and equipment carried at revalued amounts.

- PAS 24, *Related Party Disclosures – Key Management Personnel.* The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

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

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance as it does not have intangible assets carried at revalued amounts.

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

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

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

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement – Portfolio Exception.* The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property.* The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Group shall consider this amendment in future acquisitions of investment properties.

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

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

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

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

4. Segment Information

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

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

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

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

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

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

Inter-segment transactions are eliminated in the consolidated financial statements.

Business Segment Data

	March 31, 2014				
	Property	**Retail**	**Financial Services and Others**	**Eliminations**	**Consolidated**
			(In Thousands)		
Revenue:					
External customers	**₱ 15,110,292**	**₱ 42,820,667**	**₱ 2,465,747**	**₱–**	**₱60,396,706**
Inter-segment	**1,543,111**	**597**	**2,393,301**	**(3,937,009)**	**–**
	₱16,653,403	**₱42,821,264**	**₱4,859,048**	**(₱3,937,009)**	**₱60,396,706**
Segment results:					
Income before income tax	**₱ 5,919,781**	**₱ 1,788,139**	**₱ 1,842,432**	**₱ 992,251**	**₱10,542,603**
Provision for income tax	**(1,205,678)**	**(531,553)**	**(76,340)**	**–**	**(1,813,571)**
Net income	**₱4,714,103**	**₱1,256,586**	**₱1,766,092**	**₱992,251**	**₱8,729,032**
Net income attributable to:					
Owners of the Parent	**₱ 4,588,547**	**₱ 1,246,564**	**₱ 1,766,092**	**(₱1,361,392)**	**₱6,239,811**
Non-controlling interests	**125,557**	**10,023**	**–**	**2,353,641**	**2,489,221**
Segment assets (excluding deferred tax)	**₱ 357,612,092**	**₱59,042,809**	**₱ 262,609,796**	**(₱52,671,570)**	**₱626,593,127**
Segment liabilities (excluding deferred tax)	**₱ 171,111,015**	**₱ 32,930,459**	**₱ 140,422,226**	**(₱35,414,304)**	**₱309,049,396**
Other information:					
Investments in shares of stock of associates and joint ventures	**₱ 17,678,257**	**₱ 133,988**	**₱ 122,651,619**	**₱–**	**₱140,463,864**
Equity in net earnings of associates and joint ventures	**311,535**	**4,322**	**2,800,609**	**–**	**3,116,466**
Capital expenditures	**10,064,193**	**1,334,669**	**258,180**	**–**	**11,657,042**
Depreciation and amortization	**1,521,680**	**913,511**	**170,275**	**–**	**2,605,466**

	March 31, 2013				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱14,448,243	₱36,850,674	₱5,542,071	₱–	₱56,840,988
Inter-segment	3,298,879	(786)	4,804,053	(8,102,146)	–
	₱17,747,122	₱36,849,888	₱10,346,124	(₱8,102,146)	₱56,840,988
Segment results:					
Income before income tax	₱7,537,502	₱1,704,364	₱1,282,487	₱1,276,095	₱11,800,448
Provision for income tax	(995,119)	(485,064)	(142,021)	(24,258)	(1,646,462)
Net income	₱6,542,383	₱1,219,300	₱1,140,466	₱1,251,837	₱10,153,986
Net income attributable to:					
Owners of the Parent	₱5,969,520	₱1,162,328	₱1,140,466	(₱851,134)	₱7,421,180
Non-controlling interests	572,863	56,972	–	2,102,972	2,732,807
Segment assets (excluding deferred tax)	₱325,295,849	₱54,627,376	₱234,368,488	(₱45,180,871)	₱569,110,842
Segment liabilities (excluding deferred tax)	₱145,417,619	₱29,621,668	₱141,156,972	(₱31,702,368)	₱284,493,891
Other information:					
Investments in shares of stock of associates and joint ventures	₱12,094,306	₱92,158	₱126,682,596	₱–	₱138,869,060
Equity in net earnings (losses) of associates and joint ventures	560,784	2,120	5,086,255	–	5,649,159
Capital expenditures	6,692,673	1,649,928	938,903	–	9,281,504
Depreciation and amortization	1,269,734	793,744	193,847	–	2,257,325

5. Cash and Cash Equivalents

This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Cash on hand and in banks (see Note 20)	**₱7,880,073**	₱10,202,986
Temporary investments (see Notes 16 and 20)	**29,309,797**	40,006,671
	₱37,189,870	₱50,209,657

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

6. Time Deposits and Short-Term Investments

This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Time deposits:		
Pledged (see Notes 18 and 20)	**₱21,287,125**	₱21,087,625
Not pledged (see Note 20)	**34,339,795**	34,018,075
	55,626,920	55,105,700
Short-term investments (see Note 20)	**–**	887,900
	55,626,920	55,993,600
Less current portion	**28,289,770**	28,912,650
Noncurrent portion	**₱27,337,150**	₱27,080,950

A portion of the time deposits amounting to US$475.0 million, with peso equivalents of ₱21,287.1 million and ₱21,087.6 million as at March 31, 2014 and December 31, 2013, respectively and bear interest ranging from 4.1% to 5.4%, are used as collateral for loans obtained by the Group (see Note 18).

7. Investments Held for Trading and Sale

This account consists of :

	March 31, 2014	December 31, 2013
	(In Thousands)	
Investments held for trading		
Bonds (see Note 20)	**₱458,931**	₱459,754
AFS investments		
Bonds	**1,019,018**	–
Shares of stock	**661,792**	659,226
	₱2,139,741	₱1,118,980

The Group recognized a loss of ₱3.0 million and ₱0.7 million from fair value adjustments of investments held for trading for the three months ended March 31, 2014 and 2013, respectively. The amounts are included under "Dividend, management fees and others" account in the consolidated statements 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 and service fee receivables are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years term.

- The terms and conditions of related party receivables are further discussed in Note 20.

- Dividend receivables are noninterest-bearing and are normally collectible within the next financial year.

Allowance for impairment loss amounting to ₱362.4 million and ₱334.9 million as at March 31, 2014 and December 31, 2013, 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:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Land and development (see Note 14)	**₱13,146,912**	₱12,542,783
Prepaid taxes and other prepayments	**6,126,683**	5,652,642
Condominium units for sale (see Note 14)	**5,489,506**	6,213,523
Non-trade receivables, net of allowance for impairment loss of ₱5.7 million	**5,148,760**	5,086,936
Advances and deposits	**3,215,342**	5,091,059
Input tax	**3,010,843**	2,987,264
Escrow fund (see Note 15)	**1,025,850**	439,118
Accrued interest receivable	**884,709**	959,763
Receivable from banks and credit cards	**591,384**	2,423,215
Advances for project development (see Note 20)	**48,448**	88,615
Others	**1,362,886**	1,342,706
	₱40,051,323	₱42,827,624

- 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 a 30 to 90 days term.
- Accrued interest receivable relates mostly to time deposits which will be collected at respective maturity dates.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

10. Available-for-sale Investments

This account consists of investments in shares of stocks and corporate bonds, net of allowance for impairment losses amounting to ₱31.3 million as at March 31, 2014 and December 31, 2013.

Investments in bonds and corporate notes as at March 31, 2014 and December 31, 2013 include third party convertible bonds and corporate notes with fixed interest rates ranging from 2.5% to 8.25%. These investments will mature on various dates beginning on February 9, 2015 until April 15, 2018.

Gain and loss on disposal of AFS investments recognized under “Dividend, management fees and others” account in the consolidated statements of income amounted to nil and gain of ₱166.5 million for the three months ended March 31, 2014 and 2013, respectively. Listed shares of stock of the Group pertain to investments in pubslicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to ₱4,011.0 million and ₱10,365.0 million as at March 31, 2014 and December 31, 2013, respectively, are pledged as collateral for a portion of the Group’s long-term loans (see Note 18).

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

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Cost:		
Balance at the beginning of the year	**₱96,600,517**	₱92,840,123
Additions	**340**	5,492,653
Acquisition of controlling interest of HPI and SHDC	**–**	(1,710,703)
Disposals - net of realized deferred gain	**–**	(21,556)
Balance at the end of the period	**96,600,857**	96,600,517
Accumulated equity in net earnings:		
Balance at the beginning of the year	**42,393,849**	36,388,668
Equity in net earnings	**3,116,466**	13,602,269
Dividends received	**(1,955,012)**	(4,499,652)
Accumulated equity in net earnings of investments – HPI and SHDC	**–**	(338,474)
Accumulated equity in net earnings of investments sold	**–**	(2,208)
Balance at the end of the period	**43,555,303**	45,150,603
Share in net unrealized gain (loss) on AFS investments of associates	**317,486**	(2,756,754)
Translation adjustment	**(9,782)**	–
Allowance for impairment loss:		
Balance at the beginning of the year	**–**	775,047
Recovery	**–**	(775,047)
Balance at the end of the period	**–**	–
	₱140,463,864	₱138,994,366

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

	Percentage of Ownership				
	March 31, 2014		**December 31, 2013**		
Company	**Gross**	**Effective**	**Gross**	**Effective**	Principal Activities
Associates					
BDO Unibank Inc. and Subsidiaries (BDO)	**48**	**47**	**48**	**47**	Financial services
China Banking Corporation (China Bank)	**23**	**20**	**23**	**20**	Financial services
Belle Corporation and Subsidiaries (Belle)	**32**	**28**	**32**	**28**	Real estate development and tourism
Atlas Consolidated Mining, Inc.	**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 Center Inc. (CMCCI)	**34**	**34**	**–**	**–**	Shopping mall development
Joint Venture					
Waltermart Mall	**51**	**26**	**51**	**26**	Shopping mall development

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

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

Belle

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

In 2013, SMIC acquired 100% ownership in Sto. Roberto. The acquisition of Sto. Roberto increased the Group’s effective interest in Belleshares Holdings, Inc. to 99% which resulted to an increase in the Group’s effective ownership in Belle.
On various dates in 2013, the Group sold 20.2 million Belle shares, on which the Group realized ₱ 10.8 million of the deferred gain in 2013, and was recognized under “Gain on disposal of investments and properties - net” account in the consolidated statement of income. The remaining balance of the deferred gain as at December 31, 2013 amounted to ₱1,065.7 million.

HPI

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

SHDC

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

Waltermart Mall

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

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

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

As at March 31, 2014 and December 31, 2013 the fair values of investments in associates which are listed in the PSE are as follows:

	March 31, 2014	December 31, 2013
	(In Thousands)	
BDO	**₱158,844,179**	₱158,844,179
China Bank	**18,826,049**	19,003,197
Belle	**18,672,245**	16,434,274
Atlas	**8,426,945**	8,764,505

12. Property and Equipment

The movements in this account are as follows:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)					
Cost										
Balance as at December 31, 2012	₱2,412,990	₱4,369,288	₱7,576,904	₱4,538,804	₱3,982,501	₱3,369,046	₱4,989,941	₱593,227	₱1,234,953	₱33,067,654
Additions	–	566,841	1,194,897	325,373	520,580	604,179	1,071,236	66,081	782,608	5,131,795
Effect of business combination	–	8,066	865,036	74,265	1,410	1,418	–	2,596	263,643	1,216,434
Reclassifications	(2,382,990)	67,187	1,410,778	265,870	139,905	(285,449)	1,678,823	30,713	(776,681)	148,156
Disposals/retirements	(30,000)	(605,516)	(8,598)	(580,863)	(29,769)	(37,616)	(36,577)	(5,923)	(177,169)	(1,512,031)
Balance as at December 31, 2013	–	4,405,866	11,039,017	4,623,449	4,614,627	3,651,578	7,703,423	686,694	1,327,354	38,052,008
Additions	–	319,777	125,894	143,925	133,225	128,445	96,079	56,440	451,579	1,455,364
Reclassifications	2,703,377	6,601,149	(8,632,042)	(26,722)	(135,216)	217,307	(1,558,566)	8,056	(268,137)	(1,090,794)
Disposals/retirements	–	(1,026)	17,084	(1,571)	(17,562)	–	(59,436)	(109)	(3,208)	(65,828)
Balance as at March 31, 2014	**₱2,703,377**	**₱11,325,766**	**₱2,549,953**	**₱4,739,081**	**₱4,595,074**	**₱3,997,330**	**₱6,181,500**	**₱751,081**	**₱1,507,588**	**₱38,350,750**
Accumulated Depreciation and Amortization										
Balance as at December 31, 2012	₱–	₱1,226,734	₱5,010,515	₱3,110,454	₱2,003,860	₱1,878,250	₱2,336,997	₱314,327	₱–	₱15,881,137
Depreciation and amortization	–	338,054	616,380	532,018	603,746	962,994	666,619	54,461	–	3,774,272
Effect of business combination	–	–	725,138	60,658	75	76	–	1,851	–	787,798
Reclassifications	–	323,592	966,206	48,100	48,567	(513,915)	(309,346)	19,067	–	582,271
Disposals/retirements	–	(558,336)	(130,529)	(552,812)	(16,421)	(19,823)	(15,873)	(3,056)	–	(1,296,850)
Balance as at December 31, 2013	–	1,330,044	7,187,710	3,198,418	2,639,827	2,307,582	2,678,397	386,650	–	19,728,628
Depreciation and amortization	–	306,259	66,853	144,710	157,254	128,402	211,644	12,925	–	1,028,047
Reclassifications	–	4,731,756	(5,792,689)	(72,306)	(13,755)	42,108	196,382	9,848	–	(898,656)
Disposals/retirements	–	18,417	(12)	(1,157)	(5,529)	(11)	(15,068)	(109)	–	(3,469)
Balance as at March 31, 2014	**₱–**	**₱6,386,476**	**₱1,461,862**	**₱3,269,665**	**₱2,777,797**	**₱2,478,081**	**₱3,071,355**	**₱409,314**	**₱–**	**₱19,854,550**
Net Book Value										
As at March 31, 2014	**₱2,703,377**	**₱4,939,290**	**₱1,088,091**	**₱1,469,416**	**₱1,817,277**	**₱1,519,249**	**₱3,110,145**	**₱341,767**	**₱1,507,588**	**₱18,496,200**
As at December 31, 2013	₱–	₱3,075,822	₱3,851,307	₱1,425,031	₱1,974,800	₱1,343,996	₱5,025,026	₱300,044	₱1,327,354	₱18,323,380

As at March 31, 2014 and December 31, 2013, the Group has no idle property and equipment and the gross carrying amount of fully depreciated property and equipment still in use amounted to ₱9,502.6 million and ₱8,455.8 million respectively.

13. **Investment Properties**

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2012	₱34,990,179	₱112,061,331	₱21,617,309	₱17,061,279	₱185,730,098
Additions	4,800,290	5,307,963	1,619,709	14,157,130	25,885,092
Effect of business combination	–	20,774,116	–	–	20,774,116
Reclassifications	746,887	6,770,851	6,196,877	(4,637,452)	9,077,163
Translation adjustment	347,920	1,706,129	206,315	587,066	2,847,430
Disposals	(747,287)	(11,389,188)	(876,904)	(837,905)	(13,851,284)
Balance as at December 31, 2013	40,137,989	135,231,202	28,763,306	26,330,118	230,462,615
Additions	3,790,393	1,984,466	236,307	2,381,265	8,392,431
Reclassifications	283,034	9,918,817	(4,804,221)	(2,445,546)	2,952,084
Translation adjustment	(105,569)	(295,453)	(37,059)	(153,491)	(591,572)
Capitalized interest	–	–	–	213,759	213,759
Disposals	–	(74)	(59)	(6,551)	(6,684)
Balance as at March 31, 2014	**₱44,105,847**	**₱146,838,958**	**₱24,158,274**	**₱26,319,554**	**₱241,422,633**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2012	₱916,514	₱24,018,736	₱10,700,594	₱123,564	₱35,759,408
Depreciation and amortization	155,598	3,788,648	1,795,066	–	5,739,312
Reclassifications	(493,837)	8,730,336	1,059,532	–	9,296,031
Translation adjustment	47,656	783,816	76,446	–	907,918
Disposals	(41)	(12,698,071)	(1,151,131)	–	(13,849,243)
Balance as at December 31, 2013	625,890	24,623,465	12,480,507	123,564	37,853,426
Depreciation and amortization	166,455	961,906	449,059	–	1,577,420
Reclassifications	586,372	4,596,228	206,737	6,551	5,395,888
Translation adjustment	(11,640)	(42,803)	(14,817)	–	(69,260)
Disposals	–	(74)	(59)	(6,551)	(6,684)
Balance as at March 31, 2014	**₱1,367,077**	**₱30,138,722**	**₱13,121,427**	**₱123,564**	**₱44,750,790**
Net Book Value					
As at March 31, 2014	**₱42,738,770**	**₱116,700,236**	**₱11,036,847**	**₱26,195,990**	**₱196,671,843**
As at December 31, 2013	₱39,512,099	₱110,607,737	₱16,282,799	₱26,206,554	₱192,609,189

As at March 31, 2014 and December 31, 2013, the allowance for impairment loss on land and improvements and land use rights, and construction amounted to ₱923.3 million.

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱478.0 million and ₱494.0 million as at March 31, 2014 and December 31, 2013, respectively, and a fair value of ₱13,531.0 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million paid by Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱4,572.0 million and ₱5,001.0 million as at March 31, 2014 and December 31, 2013, respectively, and estimated fair value of ₱17,685.0 million and ₱20,109.0 million as at March 31, 2014 and December 31, 2013, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 18).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱8,556.0 and ₱7,629.0 million for the three months ended March 31, 2014 and 2013, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱4,491.0 million and ₱3,591.0 million for the three months ended March 31, 2014 and 2013, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱20,093.0 million and ₱18,279.0 million, and landbanking and commercial building constructions amounting to ₱5,782.0 million and ₱5,080.0 million as at March 31, 2014 and December 31, 2013, respectively.

In 2014, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM City Cabanatuan, SM City Angono, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Lipa and SM City Sta. Rosa. In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa.

Shopping mall complex under construction includes cost of land amounting to ₱2,153.0 million and ₱2,149.0 million as at March 31, 2014 and December 31, 2013, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱59,341 million and ₱82,058 million as at March 31, 2014 and December 31, 2013, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱10,076 million and ₱28,857 million as at March 31, 2014 and December 31, 2013, respectively. Interest capitalized to the construction of investment properties amounted to ₱214.0 million and ₱77.0 million as at March 31, 2014 and December 31, 2013, respectively. Capitalization rates used ranged from 4.12% to 5.99% and 5.83% to 7.20% as at March 31, 2014 and December 31, 2013, respectively.

14. Land and Development and Condominium Units for Sale

This account consists of the following:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Condominium units for sale (see Note 9)	**₱5,489,506**	₱6,213,523
Land and development:		
Current portion (see Note 9)	**13,146,912**	12,542,783
Noncurrent portion	**24,626,259**	25,666,930
	₱43,262,677	₱44,423,236

Land and development, which amounted to ₱37,773.2 million and ₱38,209.7 million as at March 31, 2014 and December 31, 2013, respectively, include land and cost of ongoing condominium projects.

Condominium units for sale amounting to ₱5,489.5 million and ₱6,213.5 million as at March 31, 2014 and December 31, 2013, respectively, pertain to completed projects of SMDC, Costa and HPI. The amounts were included under “Other current assets” account in the consolidated balance sheets (see Note 9).

The condominium units for sale and land and development are stated at cost as at March 31, 2014 and December 31, 2013.

Borrowing costs capitalized by the Group to land and development account amounted to ₱136.0 million and ₱866.0 million as at March 31, 2014 and December 31, 2013, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.8% to 5.3% and 3.6% to 5.1% as at March 31, 2014 and December 31, 2013, respectively.

15. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Goodwill	**₱14,799,036**	₱14,221,912
Less accumulated impairment loss	**91,619**	91,619
Net book value	**14,707,417**	14,130,293
Trademarks and brand names	**6,124,762**	6,124,762
	₱20,832,179	₱20,255,055

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

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

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

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

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

Other Noncurrent Assets
This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Receivables from real estate buyers (see Note 8)	**₱8,192,999**	₱10,636,503
Deposits and advance rentals	**7,958,941**	6,362,347
Advances for project development (see Note 20)	**3,649,049**	3,607,169
Derivative assets	**3,009,315**	2,643,487
Deferred input VAT	**2,405,001**	1,554,256
Defined benefit asset	**613,007**	615,982
Escrow fund (see Note 20)	**132,460**	556,206
Long-term notes (see Note 20)	**–**	218,124
Others	**3,799,673**	2,259,381
	₱29,760,445	₱28,453,455

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

- Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rate of 7.5% per annum as at December 31, 2013. In March 2014, the Group received full payment from BDO for the early redemption of the long term note amounting to ₱218.1 million.

- Escrow fund pertains mainly to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration. In 2013, the Parent Company deposited cash in escrow amounting to ₱130.0 million in the account of an escrow agent as required by the SEC in connection with the corporate restructuring.

16. **Bank Loans**

This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱1,344,450**	₱2,219,750
Peso-denominated loans	**1,000,000**	6,550,000
Subsidiaries -		
Peso-denominated loans	**18,128,509**	18,818,509
	₱20,472,959	₱27,588,259

The U.S. dollar-denominated loans amounting to US$30.0 million and US$50.0 million with peso equivalent of ₱1,344.5 million and ₱2,219.8 million as at March 31, 2014 and December 31, 2013, respectively, bear interest ranging from 1.08% to 1.79% as at March 31, 2014 and December 31, 2013 (see Note 24).

The peso-denominated loans bear annual interest rates ranging from 3.25% to 2.85% and 1.06% to 6.75% as at March 31, 2014 and December 31, 2013, respectively.

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

17. **Accounts Payable and Other Current Liabilities**

This account consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Trade	**₱31,766,752**	₱39,580,013
Nontrade	**4,430,703**	8,013,509
Accrued expenses	**3,927,955**	3,967,472
Payable arising from acquisition of land	**3,367,172**	4,838,686
Accrued interest	**2,416,180**	1,784,520
Payable to government agencies	**2,037,645**	3,671,601
Due to related parties (see Note 20)	**1,541,859**	2,091,305
Derivative liabilities	**787,109**	845,429
Gift checks redeemable and others	**1,766,179**	3,295,792
	₱52,041,554	₱68,088,327

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on a 30 to 60 days term.

- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.

- Payable arising from acquisition of land is expected to be settled within the following year.
- The terms and conditions relating to due to related parties are discussed in Note 20.
- Gift checks are redeemable at face value.
- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.

18. **Long-term Debt**

This account consists of:

	March 31, 2014			December 31, 2013		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
		(In Thousands)				
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds	**₱56,611,608**	**(₱339,625)**	**₱56,271,983**	₱56,053,998	(₱365,270)	₱55,688,728
Convertible bonds	**3,732,919**	**(56,739)**	**3,676,180**	3,732,919	(60,787)	3,672,132
Five-year term loans	**13,444,500**	**(271,377)**	**13,173,123**	13,318,500	(16,893)	13,301,607
Peso-denominated:						
Five-year and seven-year retail bonds	**9,400,000**	**(8,418)**	**9,391,582**	9,400,000	(13,794)	9,386,206
Seven-year and ten-year retail bonds	**13,082,270**	**(87,357)**	**12,994,913**	13,082,270	(89,961)	12,992,309
Bank loans collateralized with time deposits	**2,900,000**	**(2,554)**	**2,897,446**	3,000,000	(3,457)	2,996,543
Other bank loans	**14,350,000**	**(53,659)**	**14,296,341**	9,350,000	(294,476)	9,055,524
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	**12,100,050**	**(127,431)**	**11,972,619**	11,986,650	(141,857)	11,844,793
Two-year, three-year and five-year bilateral loans	**1,120,375**	**(5,278)**	**1,115,097**	1,109,875	(5,994)	1,103,881
Five-year syndicated loan	**22,407,500**	**(451,172)**	**21,956,328**	22,197,500	(473,025)	21,724,475
Other U.S. dollar loans	**4,481,500**	**(52,224)**	**4,429,276**	4,439,500	(55,869)	4,383,631
China Yuan Renminbi-denominated:						
Three-year loan	**–**	**–**	**–**	961,827	–	961,827
Five-year loan	**1,952,729**	**–**	**1,952,729**	2,235,771	–	2,235,771
Peso-denominated:						
Three-year and five-year fixed rate notes	**17,075,000**	**(74,620)**	**17,000,380**	17,075,000	(80,100)	16,994,900
Five-year and ten-year fixed and floating rate notes	**7,375,500**	**(45,366)**	**7,330,134**	7,375,500	(47,692)	7,327,808
Five-year, seven-year and ten-year fixed and floating rate notes	**4,272,800**	**(24,975)**	**4,247,825**	4,316,400	(25,877)	4,290,523
Five-year, seven-year and ten-year corporate notes	**6,596,000**	**(22,518)**	**6,573,482**	6,596,000	(25,068)	6,570,932
Five-year and ten-year corporate notes	**1,100,000**	**(6,657)**	**1,093,343**	1,100,000	(6,906)	1,093,094
Five-year floating rate notes	**4,850,000**	**(18,141)**	**4,831,859**	4,900,000	(20,390)	4,879,610
Five-year, seven-year and ten-year fixed rate notes	**8,200,000**	**(50,010)**	**8,149,990**	8,200,000	(51,445)	8,148,555
Five-year bilateral loans	**500,000**	**(1,424)**	**498,576**	500,000	(1,547)	498,453
Other bank loans	**11,025,660**	**(19,064)**	**11,006,596**	11,026,060	(21,325)	11,004,735
	216,578,411	**(1,718,609)**	**214,859,802**	211,957,770	(1,801,733)	210,156,037
Less current portion	**37,827,316**	**(285,350)**	**37,541,966**	34,858,218	(291,599)	34,566,619
Noncurrent portion	**₱178,751,095**	**(₱1,433,259)**	**₱177,317,836**	₱177,099,552	(₱1,510,134)	₱175,589,418

Parent Company

Fixed Rate Bonds

US$500.0 million Senior Bonds
On October 17, 2012, SMIC issued US$500.0 million senior bonds, with peso equivalent of ₱22,407.5 million and ₱22,197.5 million as at March 31, 2014 and December 31, 2013, which bear a fixed interest rate of 4.25% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019.

US$400.0 million Exchanged Bonds
On October 13, 2010, SMIC issued US$400.0 million bonds with peso equivalents of ₱17,212.2 million and ₱17,023.9 million as at March 31, 2014 and December 31, 2013, respectively, which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱8,030.9 million) additional bonds, and US$82.9 million (₱3,549.8 million) and US$130.8 million (₱ 5,631.6 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.0% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

US$500.0 million Bonds
On September 22, 2009, SMIC issued US$500.0 million bonds, with peso equivalent of ₱16,991.9 million and ₱16,832.6 million as at March 31, 2014 and December 31, 2013, which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on
September 22, 2014.

Convertible Bonds

US$250.0 million Convertible Bonds
On February 15, 2012, SMIC issued at face value 1.625% coupon US$250.0 million (₱9,407.6 million) convertible bonds, with a yield to maturity of 2.875% due on February 15, 2017 at 106.67%. The bonds bear coupon interest of 1.625% and has a yield-to-maturity of 2.875% at inception. Interest on the bonds is payable semi-annually in arrears. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which was bifurcatedby SMIC at inception. See Note 29 for further discussion.

Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for SMIC's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises its conversion option, the Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2013, the bondholders of US$150.8 million (₱5,778.9 million) opted to convert their holdings into 8,390,334 of SMIC's shares.

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

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

Five-year U.S. Dollar Loans

In 2013, the Company obtained a five-year loan amounting to US$300.0 million with Phillippine peso equivalent of ₱13,444.5 million and ₱13,318.5 million as at March 31, 2014 and December 31, 2013, respectively which bears floating interest rate of six-month LIBOR plus margin. Portion of the loan amounting to US$180.0 million is hedged against interest rate and foreign exchange risks using cross currency swap contract (see Notes 24 and 25).

Seven-year and Ten-year Retail Bonds

On July 16, 2012, SMIC issued fixed rate bonds, which comprised of seven-year or Series C Bonds and ten-year or Series D Bonds due on July 16, 2019 and July 16, 2022, respectively. The total issuance amounted to ₱5,623.5 million and ₱8,658.8 million for the Series C and Series D Bonds, respectively.

The Series C Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 6.00% per annum payable semi-annually in arrears starting January 16, 2013. The Series D Bonds have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.94% per annum payable semi-annually in arrears starting January 16, 2013.

At various dates in 2013, the SMIC redeemed ₱1,317.7 million for Series C and ₱600.0 million for Series D Bonds.

Outstanding balance as at March 31, 2014 and December 31, 2013 for Series C and Series D bonds amounted to ₱5,023.5 million and ₱8,058.8 million, respectively.

Five-year and Seven-year Retail Bonds

On June 25, 2009, SMIC issued fixed rate bonds, which comprised of five-year or Series A Bonds and seven-year or Series B Bonds due on June 26, 2014 and June 25, 2016, respectively. The total issuance amounted to ₱9,000.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

The Series A Bonds have a term of five years and one day from the issue date, with a fixed interest rate equivalent to 8.25% per annum payable semi-annually in arrears starting December 26, 2009. The Series B Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 9.10% per annum payable semi-annually in arrears starting December 25, 2009.

Outstanding balance as at March 31, 2014 and December 31, 2013 amounted to ₱9,400.0 million.

Bank Loans Collateralized with Time Deposits

On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The loans are based on a three-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus an agreed margin. Interest on these loans is payable quarterly in arrears. On January 3, 2014, SMIC paid ₱50.0 million each of the two five-year loans. Outstanding balances as at March 31, 2014 and December 31, 2013 amounted to ₱2,900.0 million and ₱3,000.0 million, respectively.

These loans are collateralized by a portion of SMIC's time deposits amounting to US$475.0 million with peso equivalents of ₱21,287.0 million and ₱21,087.6 million as at March 31, 2014 and December 31, 2013, respectively (see Note 6).

Other Peso Bank Loans
This account includes the following:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Ten-year term loans	**₱100,000**	₱100,000
Seven-year term loans	**11,250,000**	9,250,000
Five-year term loans	**3,000,000**	–
	₱14,350,000	₱9,350,000

- In January 2014, SMIC obtained five-year and seven-year term loans amounting to ₱3,000.0 million and ₱2,000.0 million, which bear fixed interest rates of 5.40% and 5.24% per annum respectively.

- In August 2013, SMIC obtained a seven-year term loan amounting to ₱2,000.0 million which bears a fixed interest rate of 4.47% per annum.

- In June 2013, the Company obtained a seven-year term loan amounting to ₱3,000.0 million which bears a fixed interest rate of 4.39% per annum.

- In April 2013, SMIC obtained seven-year and ten-year term loans amounting to ₱2,250.0 million and ₱100.0 million, which bear fixed interest rates ranging from 4.03% to 4.64% per annum, respectively.

- The seven-year term loans also include a ₱2,000.0 million fixed rate loan which bear a fixed rate of 2.80% per annum.

Subsidiaries

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$300 million unsecured loan obtained on various dates in 2013. The loan bears an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. Portion of the loan amounting to US$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts.

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270 million unsecured loan obtained on various dates in 2012 and 2011 from a US$270 million facility. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 21, 2016.

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$200 million unsecured loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts.

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
This consists of the following:

- The US$75 million unsecured loans were initially obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with maturities in November 2018. The remaining balance of US$25 million will mature on November 20,2018.

- US$10 million and US$40 million, out of US$50 million five-year bilateral unsecured loan, obtained in 2012 and 2013, respectively. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017.

- US$30 million and US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015.

Other Peso Bank Loans

Philippine Peso-denominated Five-Year and Ten-Year Floating and Fixed Rate Notes
This represents five-year and ten-year floating and fixed rate notes obtained on June 19, 2012 amounting to ₱3,450 million and ₱1,000 million for the floating and ₱680 million and ₱2,370 million for the fixed, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱50 million on March 19, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱0.4 million in 2013.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱196 million on March 20, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013.

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed and Floating Rate Notes
This represents five-year floating, five-year, seven-year and ten-year fixed rate notes obtained on January 12, 2012 amounting to ₱200 million, ₱1,012 million, ₱133 million, and ₱3,655 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱634 million on April 12, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱5 million in 2013.

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.11% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively. The Company prepaid the ₱200 million and ₱3,700 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17 million in 2012.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. The loans amounting to ₱1,000 million, ₱1,200 and ₱800 were prepaid on June 17, 2011, 2012 and 2013, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2011, ₱5 million in 2012 and ₱4 million in 2013.

Other Bank Loans
This consists of the following:

- Five-year term loans amounting to ₱1,625 million obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 6.75%. Portion of the loans is collateralized by AFS investments. Portion of the principal amount was paid amounting to ₱9 million in 2012 and 2013, respectively.

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin.

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015. The Company prepaid ₱175 million of the loan as at September 30, 2013. The related balance of unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013.

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin.

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin.

- Five-year bullet loan obtained on October 16, 2009 amounting to ₱2,000 million. The loan bears an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014.

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016.

All the above Philippine peso-denominated loans are unsecured except as otherwise indicated.

China Yuan Renminbi-denominated Five-Year Loan
This consists of the following:

- A five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.

- A five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made as at December 31, 2013. The loan is payable in 2015. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.

China Yuan Renminbi-denominated Three-Year Loan
This represents a three-year loan obtained on March 28, 2011 amounting to ¥187 million out of ¥250 million loan facility to finance the construction of shopping malls. The Company prepaid portion of this loan amounting to ¥37 million in 2013 and ¥18 million in 2012. The remaining ¥132 loan was paid in March 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5%. The loan bears interest rate of 6.20% in 2014 and 2013.

The China yuan renminbi-denominated loans are secured by investment properties in China.

Philippine Peso-denominated Fixed Rate Term Loans
This consists of the following:

- Long-term loans amounting to ₱12,075 million obtained on various dates in 2013. The loans bear fixed interest rates ranging from 4.00% to 5.88% with maturities ranging from three to ten years.

- Long-term loan amounting to ₱5,000 million obtained on September 27, 2013. The loan bears fixed interest rate of 4.77% and will mature on September 27, 2018.

- Long-term loan amounting to ₱2,000 million obtained on December 27, 2012. The loan bears fixed rate of 4.72% and will mature on December 23, 2015.

- Three-year loan obtained on October 4, 2013 amounting to ₱315 million. The loan carries an interest rate of 4.50% and will mature on October 4, 2016.

Philippine Peso-denominated Fixed Rate Corporate Notes
This consists of the following:

- Series “A” and Series “B” peso-denominated fixed rate corporate notes amounting to ₱3,740 million and ₱2,460 million, respectively, issued on June 3, 2013. The Series “A” and Series “B” notes have fixed interest rates of 5.57% and 5.88%, which are payable semi-annually, and with maturity dates of June 3, 2020 and June 3, 2023, respectively.

- Peso-denominated fixed rate corporate notes amounting to ₱2,000 million issued on June 28, 2013. The loan bears fixed interest rate at 5.71% payable semi-annually with maturity date of June 28, 2020.

- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱2,000 million and ₱8,000 million, respectively, on June 1, 2010. The Series "A" and Series "B" notes have fixed interest rates of 6.76% and 7.73%, which are payable semi-annually, with maturity dates of June 1, 2013 and June 2, 2015, respectively. The notes were pre-terminated in June 2013.

- Peso-denominated fixed rate corporate notes amounting to ₱6,313 million, issued on April 27, 2012. The notes have fixed interest rate of 6.01% payable semi-annually with maturity date of July 27, 2017. The notes were pre-terminated in June 2013.

Philippine Peso-denominated Five-Year Bilateral Loans
This consists of the following:

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin.

- Five-year term loans amounting to ₱40 million and ₱80 million obtained in 2010 with fixed interest rate of 5%. Both loans will mature in 2015. Portion of the principal amount was paid amounting to ₱0.40 million in 2014 and ₱1 million in 2013 and 2012.

The above loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 and debt service coverage ratio of not less than 1.10:1.00) and material change in ownership or control. As at March 31, 2014 and December 31, 2013, the Company is in compliance with the terms of its loan covenants.

The re-pricing frequencies of floating rate loans range from three to nine months.

19. Equity

Capital Stock

a. Common stock

	Number of Shares	
	March 31, 2014	December 31, 2013
Authorized - ₱10 par value per share	**1,190,000,000**	1,190,000,000
Issued:		
Balance at the beginning of the year	**796,272,268**	622,974,620
Issuances	**–**	173,297,648
Balance at the end of the year	**796,272,268**	796,272,268
Subscribed:		
Balance at the beginning of the year	**796,272,268**	622,974,620
Issuances	**–**	173,297,648
Balance at the end of the year	**796,272,268**	796,272,268
Issued and subscribed	**796,272,268**	796,272,268

On June 14, 2013, the SEC approved the increase in authorized capital stock of SMIC from ₱6,900.0 million to ₱11,900.0 million.

On August 7, 2013, the SMIC entered into a Placement Agreement with certain shareholders and UBS AG, Hong Kong Branch (the "Placement Agent"), where the selling shareholders shall sell 7.3 million common shares (the "Sale Shares") at ₱900.00 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

On August 24, 2012, SMIC entered into a Placement Agreement with certain shareholders and Macquarie Capital PTE. Limited (the "Placement Agent"), where the selling shareholders shall sell 9.1 million SMIC common shares (the "Sale Shares") at ₱700.00 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

In 2013 and 2012, the SMIC simultaneously entered into a Subscription Agreement with the selling shareholders, where the Company agreed to issue new common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by the Selling Shareholders and the Selling Shareholders agreed to subscribe to the said shares.

The placement and subscription agreements increased "Capital Stock" and "Additional paid-in capital" in the amount of ₱72.5 million and ₱6,370.6 million in 2013.

In 2013 and 2012, 8,390,334 common shares and 1,710,587 common shares, respectively, were issued as a result of conversion of SMIC's convertible bonds (see Note 18). The excess of the conversion price over par value totaling ₱8,449.7 million in 2013, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at March 31, 2014 and December 31, 2013, the Parent Company is compliant with the minimum public float as required by the PSE.

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010		340,858	453
November 3, 2010		309,387	453
November 25, 2010		309,386	453
August 17, 2011		10,668	453
September 26, 2011		170,696	453
January 2, 2012		21,337	453
January 10, 2012		16,002	453
January 11, 2012		298,718	453
January 26, 2012		90,682	453
February 3, 2012		679,584	453
February 8, 2012		279,515	453
March 8, 2012		250,070	453
March 12, 2012		10,668	453

(Forward)

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 13, 2012		64,011	₱453
September 24, 2012		9,100,000	700
January 23, 2013		10,931	781
January 24, 2013		32,793	781
February 20, 2013		688,668	781
February 25, 2013		87,450	781
February 28, 2013		109,312	781
March 4, 2013		76,518	781
March 6, 2013		54,656	781
March 8, 2013		109,312	781
March 12, 2013		349,797	781
March 14, 2013		459,113	781
March 15, 2013		109,312	781
March 18, 2013		163,968	781
March 19, 2013		218,625	781
March 20, 2013		153,037	781
March 22, 2013		120,243	781
March 25, 2013		207,693	781
April 2, 2013		546,563	781
April 3, 2013		174,900	781
April 5, 2013		163,969	781
April 10, 2013		109,312	781
April 11, 2013		109,312	781
April 12, 2013		109,312	781
April 15, 2013		54,656	781
April 16, 2013		109,312	781
April 17, 2013		109,312	781
April 18, 2013		229,556	781
April 19, 2013		32,793	781
April 22,2013		109,312	781
April 23, 2013		185,830	781
April 24, 2013		87,449	781
April 26, 2013		54,656	781
May 6, 2013		120,243	781
May 7, 2013		382,594	781
May 8, 2013		65,587	781
May 9, 2013		21,862	781
May 10, 2013		207,693	781
May 13, 2013		54,656	781
May 16, 2013		109,312	781
May 17, 2013		546,562	781
May 20, 2013		54,656	781
May 24, 2013		163,968	781
May 28, 2013		185,831	781
May 29, 2013		207,693	781
June 4, 2013		163,968	781
June 5, 2013		54,656	781
June 6, 2013		32,793	781

(Forward)

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
June 7, 2013		21,862	₱781
June 14, 2013	500,000,000		10
June 24, 2013		10,931	781
July 5, 2013		109,312	781
July 18, 2013		82,053	625
July 19, 2013		164,108	625
July 26, 2013		82,054	625
July 29, 2013		41,027	625
July 30, 2013		136,757	625
August 1, 2013		157,629,986	10
August 1, 2013		7,250,000	900
October 17, 2013		27,328	10
October 17, 2013		68,378	625
October 25, 2013		136,755	625
November 1, 2013		27,351	625

The Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company was 1,249 and 1,263 as at December 31, 2013 and 2012, respectively.

b. Redeemable preferred shares

	Number of shares	
	March 31, 2014	December 31, 2013
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at March 31, 2014 and December 31, 2013.

<u>Cost of Parent Common Shares Held by Subsidiaries</u>

Certain subsidiaries hold common shares of the Parent Company. This is presented as “Cost of Parent common shares held by subsidiaries” and is treated as a reduction in equity as shown in the consolidated balance sheets and consolidated statements of changes in equity.

The cost of common shares held by subsidiaries as at March 31, 2014 and December 31, 2013 amounting to ₱25.4 million pertains to 879 shares with an average cost of ₱257.7 per share.

In 2013, SM Land disposed 389,612 Parent Company common shares for ₱371.0 million. The disposal resulted in a total gain of ₱267.7 million where the portion of the gain pertaining to the interest of the Parent Company and Non-controlling interest is recognized under “Additional paid-in capital” and “Non-controlling interests” account, respectively, in the consolidated balance sheets.

<u>Equity Adjustments from Common Control Transactions</u>

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

In 2013, the Group entered into a corporate restructuring to consolidate all of the SM Group's real estate subsidiaries and real estate assets under one single listed entity. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions. The adjustment resulting from these transactions was also recorded in this account.

Retained Earnings

a. Appropriated

On December 14, 2012, the BOD approved the appropriation of ₱35,000.0 million retained earnings.

On April 25, 2013, the BOD approved to reverse ₱8,000.0 million of the appropriation.
As at March 31, 2014 and December 31, 2013, the appropriated retained earnings is intended for the following projects:

Projects	Timeline	
	(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

On April 25, 2013, the BOD approved the declaration of cash dividends of 118.0% of the par value or ₱11.80 per share for a total amount of ₱7,402.0 million in favor of stockholders on record as at May 24, 2013. This was paid on June 20, 2013. On the same date, the BOD approved the declaration of 25% stock dividends in favor of stockholders on record to be fixed by the SEC.

On June 24, 2013 and July 12, 2013, the SEC approved the issuance of 157,000,000 and 629,986 shares as stock dividends to stockholders on record as of July 8, 2013. The stock dividends were issued on August 1, 2013.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱112,960.5 million and ₱93,346.9 million as at December 31, 2013 and 2012, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

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 following are the significant transactions with related parties:

a. Rent

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

b. Management and Service Fees

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

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

c. Dividend Income

The Group has investment in certain related parties under common stockholder classified as AFS equity instruments. The Group earn income from these investments upon the declaration of dividends by the investees.

d. Cash Placements and Loans

The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 5 and 7).

The Group also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Note 18).

e. Others

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

Following is the summary of related party transactions and outstanding balances as at March 31, 2014 and 2013 and December 31, 2013.

	Amount of Transactions		Outstanding Amount Asset (Liability)		Terms	Conditions
	March 31, 2014	March 31, 2013	**March 31, 2014**	December 31, 2013		
	(In Thousands)					
Banking Group						
Cash placement and investment in debt securities	**(₱14,952,453)**	₱–	**₱84,669,137**	₱99,621,590	Interest bearing 0.5% to 6.55%	Unsecured; no impairment
Interest income	**619,020**	885,718	**731,736**	798,688	Interest bearing 4.9% to 6.47%	Unsecured; no impairment
Loans	**2,210,000**	–	**24,400,000**	22,190,000	Interest-bearing 3.25% to 8.79%	Unsecured
Interest expense	**265,963**	194,801	**62,006**	41,054	Interest-bearing 3.25% to 8.79%	Unsecured
Rent income	**140,929**	20,360	**95,582**	3,060	Noninterest bearing	Unsecured; no impairment
Dividend receivable	**1,317,292**	–	**1,317,292**	–	Noninterest bearing	Unsecured; no impairment
Retail Entities under common Stockholders						
Rent income	**861,396**	1,088,743	**1,405,099**	2,611,290	Noninterest bearing	Unsecured; no impairment
Management fee income	**173,998**	150,817	**70,815**	54,533	Noninterest bearing	Unsecured; no impairment
Management fee expense	**277,192**	231,920	**134,641**	109,177	Noninterest bearing	Unsecured; no impairment
Dividend income	**2,583**	–	**588,496**	719,861	Noninterest bearing	Unsecurehbgd; no impairment
Service income	**175,849**	138,213	**141,795**	4,998	Noninterest bearing	Unsecured; no impairment
Due from related parties	**(280,764)**	–	**1,000,512**	1,281,276	Noninterest bearing	Unsecured
Due to related parties	**(566,790)**	–	**1,524,515**	2,091,305	Noninterest bearing	Unsecured
Other Related Parties						
Receivable under common Stockholders	–	–	**52,800**	52,800	Interest-bearing fixed at 4.5%	Unsecured; no impairment
Receivable for project development	**417,377**	–	**3,649,049**	3,231,672	Noninterest-bearing	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

For the periods ended March 31, 2014 and December 31, 2013, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial report cutoff date by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Related parties under common stockholders refer to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

21. **Cost of Merchandise Sales**

This account consists of:

	March 31, 2014	March 31, 2013
	(In Thousands)	
Merchandise inventories at the beginning of the year	**₱13,232,308**	₱13,402,762
Purchases	**32,247,139**	26,466,535
Total goods available for sale	**45,479,447**	39,869,297
Less merchandise inventories at the end of the year	**13,552,140**	13,225,356
	₱31,927,307	₱26,643,941

22. **Income tax**

The deferred tax assets of ₱2,452.9 million and ₱2,172.8 million as at as at March 31, 2014 and December 31, 2013, respectively, represent the tax effects of defined benefit liability, unamortized past service cost, unrealized foreign exchange loss and others, accrued leases, MCIT, unrealized marked-to-market loss on investments, deferred income on sale of real estate and NOLCO.

The deferred tax liabilities of ₱7,814.9 million and ₱6,970.5 million as at March 31, 2014 and December 31, 2013 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 marked-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 March 31, 2014 and December 31, 2013 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 lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

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

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants' deposits amounted to ₱10,690.3 million million and ₱10,527.6 million as at March 31, 2014 and December 31, 2013, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
	(In Millions)	
Within one year	**₱–**	₱791
After one year but not more than five years	**2,995**	2,903
After five years	**2,303**	1,792
Balance at end of year	**₱5,298**	₱5,486

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases of SM Prime as at March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
	(In Millions)	
Within one year	**₱739**	₱735
After one year but not more than five years	**3,275**	3,261
After five years	**27,140**	27,330
Balance at end of year	**₱31,154**	₱31,326

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 and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, 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 agrees policies for managing each of these risks and they are summarized in the following tables. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at March 31, 2014 and December 31, 2013:

	March 31, 2014							
	Below 1 Year	**1–2 Years**	**2–3 Years**	**3–5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost/Discount**	**Carrying Amount**
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	**$–**	**$–**	**$384,073**	**$–**	**$–**	**₱17,212,232**	**(₱106,930)**	**₱17,105,302**
Interest rate	–	–	**5.50%**	–	–			
US$500 million fixed rate bonds	**379,156**	–	–	–	–	**16,991,876**	**(28,129)**	**16,963,747**
Interest rate	**6.00%**	–	–	–	–			
US$250 million convertible bonds	–	–	–	**84,084**	–	**3,732,919**	**(56,739)**	**3,676,180**
Interest rate	–	–	–	**1.63%**	–			
US$500 million Senior bonds	–	–	–	**500,000**	–	**22,407,500**	**(204,566)**	**22,202,934**
Interest rate	–	–	–	**4.25%**	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	**₱38,200**	**₱7,238,600**	**₱11,639,400**	**₱8,933,220**	**₱9,668,380**	**37,517,800**	**(196,494)**	**37,321,306**
Interest rate	**5.57%-6.81%**	**4.32%-6.81%**	**4.00%-6.81%**	**5.40%-6.81%**	**5.24%-6.81%**			
Five-year and seven-year retail bonds	**8,400,000**	**1,000,000**	–	–	–	**9,400,000**	**(4,852)**	**9,395,148**
Interest rate	**8.25%**	**9.10%**	–	–	–			
Seven-year and ten-year retail bonds	–	–	–	**5,023,460**	**8,058,810**	**13,082,270**	**(90,923)**	**12,991,347**
Interest rate	–	–	–	**6.00%**	**6.94%**			
Ten-year corporate notes	–	–	–	**1,100,000**	–	**1,100,000**	**(6,657)**	**1,093,343**
Interest rate	–	–	–	**10.11%**	–			
Other bank loans	**1,384,550**	**1,853,650**	**8,070,700**	**5,254,000**	**2,086,000**	**18,648,900**	**(157,475)**	**18,491,425**
Interest rate	**5.00%-7.00%**	**4.50%-9.75%**	**3.98%-5.88%**	**4.39%-5.88%**	**4.03%-5.88%**			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	–	**$320,000**	**$50,000**	–	–	**16,581,550**	**(179,655)**	**16,401,895**
Interest rate	–	**LIBOR+margin%**	**LIBOR+margin%**	–	–			
China Yuan renminbi loans	**¥244,000**	**¥60,900**	–	–	–	**1,952,729**	–	**1,952,729**

(Forward)

	March 31, 2014							
	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/Discount	Carrying Amount
	(In Thousands)							
Interest rate	5.76%	5.76%	–	–	–			
US$ bilateral loans	–	–	$25,000	–	–	₱1,120,375	(₱5,278)	₱1,115,097
Interest rate	–	–	LIBOR+margin%	–	–			
US$ five-year syndicated loans	–	–	$500,000	–	–	22,407,500	(451,172)	21,956,328
Interest rate	–	–	LIBOR+margin%	–	–			
Other bank loans	–	–	$120,000	–	–	5,377,800	(144,164)	5,233,636
Interest rate	–	–	LIBOR+margin%	–	–			
Peso Loans:	–	–	–	–	–			
Peso loans collateralized with time deposits	₱–	₱–	₱2,900,000	₱–	₱–	2,900,000	(2,554)	2,897,446
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year, seven-year and ten-year corporate notes	68,000	5,776,000	16,000	736,000	–	6,596,000	(22,610)	6,573,390
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–			
Five-year and ten-year corporate notes	44,500	89,000	3,332,000	20,000	920,000	4,405,500	(22,683)	4,382,817
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Five-year floating rate loan	–	4,850,000	–	–	–	4,850,000	(18,048)	4,831,952
Interest rate	–	PDST-F+margin%	–	–	–			
Five-year bilateral loans	–	500,000	–	–	–	500,000	(1,424)	498,576
Interest rate	–	PDST-F+margin%	–	–	–			
Other bank loans	5,008,180	2,785,280	–	2,000,000	–	9,793,460	(18,256)	9,775,204
Interest rate	PDST-F+margin%	PDST-F+margin%	–	PDST-F+margin%	–			
						₱216,578,411	(₱1,718,609)	₱214,859,802

	December 31, 2013							
	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/Discount	Carrying Amount
	(In Thousands)							
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$383,463	$–	$–	₱17,023,867	(₱112,588)	₱16,911,280
Interest rate	–	–	5.50%	–	–			
US$500 million fixed rate bonds	379,156	–	–	–	–	16,832,631	(42,037)	16,790,593
Interest rate	6.00%	–	–	–	–			
US$250 million convertible bonds	–	–	–	84,084	–	3,732,919	(60,787)	3,672,132
Interest rate	–	–	–	1.63%	–			
US$500 million Senior bonds	–	–	–	–	500,000	22,197,500	(210,645)	21,986,855
Interest rate	–	–	–	–	4.25%			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱–	₱–	₱2,000,000	₱18,757,800	₱11,605,600	32,363,400	(175,781)	32,187,619
Interest rate	–	–	4.72%	4.00%-6.81%	5.90%-10.11%			
Five-year and seven-year retail bonds	8,400,000	–	1,000,000	–	–	9,400,000	(13,795)	9,386,205
Interest rate	8.25%	–	9.10%	–	–			
Seven-year and ten-year retail bonds	–	–	–	–	13,082,270	13,082,270	(89,961)	12,992,309
Interest rate	–	–	–	–	6.00%-6.94%			
Ten-year corporate notes	–	–	–	–	1,100,000	1,100,000	(6,906)	1,093,094
Interest rate	–	–	–	–	10.11%			
Other bank loans	1,379,500	1,538,100	315,000	–	7,350,000	10,582,600	(26,880)	10,555,720
Interest rate	5.00%-5.68%	5.00%-9.75%	4.50%	–	4.03%-5.88%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	–	–	$570,000	–	–	25,305,150	(426,877)	24,878,273
Interest rate	–	–	LIBOR+margin%	–	–			
China Yuan renminbi loans	¥386,761	¥62,782	–	–	–	3,197,597	–	3,197,597

	December 31, 2013							
	Below 1 Year	1–2 Years	2–3 Years	3–5 Years	Over 5 Years	Total	Debt Issue Cost/Discount	Carrying Amount
	(In Thousands)							
Interest rate	5.76%-6.20%	5.76%-6.20%	–	–	–			
US$ bilateral loans	–	–	–	$25,000	–	₱1,109,876	(₱5,995)	₱1,103,881
Interest rate	–	–	–	LIBOR+margin%	–			
US$ five-year syndicated loans	–	–	–	500,000	–	22,197,500	(473,025)	21,724,475
Interest rate	–	–	–	LIBOR+margin%	–			
Other bank loans	–	–	50,000	50,000	–	4,439,500	(55,869)	4,383,631
Interest rate	–	–	LIBOR+margin%	LIBOR+margin%	–			
Peso Loans:	–	–	–	–	–			
Peso loans collateralized with time deposits	₱–	₱–	₱3,000,000	₱–	₱–	3,000,000	(3,457)	2,996,543
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year, seven-year and ten-year corporate notes	–	–	1,746,000	–	4,850,000	6,596,000	(25,068)	6,570,932
Interest rate	–	–	PDST-F+margin%	–	PDST-F+margin%			
Five-year and ten-year corporate notes	–	–	–	3,415,500	990,000	4,405,500	(28,297)	4,377,203
Interest rate	–	–	–	PDST-F+margin%	PDST-F+margin%			
Five-year floating rate loan	–	–	4,900,000	–	–	4,900,000	(20,390)	4,879,610
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year bilateral loans	–	–	500,000	–	–	500,000	(1,545)	498,455
Interest rate	–	–	PDST-F+margin%	–	–			
Other bank loans	5,000,000	2,793,460	–	198,000	2,000,000	9,991,460	(21,830)	9,969,630
Interest rate	PDST-F+margin%	PDST-F+margin%		PDST-F+margin%	PDST-F+margin%			
						₱211,957,770	(₱1,801,733)	₱210,156,037

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (see Note 25). As at March 31, 2014 and December 31, 2013, after taking into account the effect of the swaps, approximately 65.0% and 63.0%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, 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 ₱87,456.3 million (US$1,951.3 million) and ₱93,127.9 million (US$2,078.0 million), respectively, as at March 31, 2014, and ₱84,970.2 million (US$1,914.0 million) and ₱100,887.5 (US$2,272.5 million), respectively, as at December 31, 2013.

As at March 31, 2014 and December 31, 2013, approximately 39.9% and 41.7%, 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 rate used were ₱44.82 to US$1.00, and ₱44.40 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of March 31, 2014 and December 31, 2013, respectively.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

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

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments - bonds amounting to ₱37,189.9 million, ₱28,289.8 and ₱458.9 million, respectively, as at March 31, 2014 and ₱50,209.7 million, ₱28,912.7 million and ₱459.8 million, respectively, as at December 31, 2013 (see Notes 5, 6 and 7). The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at March 31, 2014 and December 31, 2013 based on the contractual undiscounted payments:

	March 31, 2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱20,472,959**	**₱–**	**₱–**	**₱20,472,959**
Accounts payable and other current liabilities*	**–**	**50,003,909**	**–**	**–**	**50,003,909**
Long-term debt (including current portion)	**–**	**39,837,873**	**138,743,211**	**68,553,739**	**247,134,823**
Derivative liabilities:**					
Interest rate swaps	**–**	**–**	**159,356**	**–**	**159,356**
Multiple derivatives on convertible bonds	**–**	**787,109**	**–**	**–**	**787,109**
Dividends payable	**–**	**209,640**	**–**	**–**	**209,640**
Tenants' deposits	**–**	**–**	**10,690,301**	**–**	**10,690,301**
	₱–	**₱111,311,490**	**₱149,592,868**	**₱68,553,739**	**₱329,458,097**

	December 31, 2013				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱27,588,259	₱–	₱–	₱27,588,259
Accounts payable and other current liabilities*	–	64,416,727	–	–	64,416,727
Long-term debt (including current portion)	–	38,296,386	138,091,911	66,216,033	242,604,330
Derivative liabilities:**					
Interest rate swaps	–	–	159,974	–	159,974
Multiple derivatives on convertible bonds	–	845,429	–	–	845,429
Dividends payable	–	210,189	–	–	210,189
Tenants' deposits	–	–	10,527,581	–	10,527,581
	₱–	₱131,356,990	₱148,779,466	₱66,216,033	₱346,352,489

* *Excluding payable to government agencies of ₱2,037.6 million and ₱3,671.6 million as at March 31, 2014 and December 31, 2013, respectively, the amounts of which are not considered as financial liabilities.*
** *Based on estimated future cash flows.*

Credit Risk

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

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral.

Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

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

As at March 31, 2014 and December 31, 2013, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

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

High Quality. This pertains to a counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at March 31, 2014 and December 31, 2013, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	March 31, 2014		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱36,388,575**	**₱–**	**₱36,388,575**
Time deposits and short-term investments (including noncurrent portion)	**55,626,920**	**–**	**55,626,920**
Investments held for trading - Bonds	**458,931**	**–**	**458,931**
AFS investments	**18,513,084**	**8,148**	**18,521,232**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**26,410,276**	**4,801,166**	**31,211,442**
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet)	**11,832,822**	**–**	**11,832,822**
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	**3,009,315**	**–**	**3,009,315**
	₱152,239,923	**₱4,809,314**	**₱157,049,237**

	December 31, 2013		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱48,999,592	₱–	₱48,999,592
Time deposits and short-term investments (including noncurrent portion)	55,993,600	–	55,993,600
Investments held for trading - Bonds	459,754	–	459,754
AFS investments	17,154,400	3,918	17,158,318
Receivables - net (including noncurrent portion of receivables from real estate buyers)	30,313,593	5,802,860	36,116,453
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account)	13,649,588	–	13,649,588
Long-term notes (included under "Other noncurrent assets" account)	218,124	–	218,124
Derivative assets (included under "Other noncurrent assets" account)	2,643,487	–	2,643,487
	₱169,432,138	₱5,806,778	₱175,238,916

Equity Price Risk

The Group's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

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

The Group monitors its capital gearing by measuring the ratio of net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50.

As at March 31, 2014 and December 31, 2013, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	March 31, 2014	December 31, 2013
	(In Thousands)	
Bank loans	**₱20,472,959**	₱27,588,259
Long-term debt	**214,859,802**	210,156,037
Less:		
Cash and cash equivalents (excluding cash on hand)	**(36,388,575)**	(48,999,592)
Time deposits and short-term investments	**(55,626,920)**	(55,993,600)
AFS investments (bonds and corporate notes)	**(5,639,475)**	(5,539,822)
Investments held for trading-bonds	**(458,932)**	(457,754)
Long-term notes included under "Other noncurrent assets" account	**–**	(218,124)
Total net interest-bearing debt (a)	**137,218,859**	126,535,404
Total equity attributable to owners of the Parent	**227,504,416**	219,433,817
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱364,723,275**	₱345,969,221
Gearing ratio (a/b)	**38%**	37%

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	March 31, 2014	December 31, 2013
	(In Thousands)	
Bank loans	**₱20,472,959**	₱27,588,259
Long-term debt	**214,859,802**	210,156,037
Total interest-bearing debt (a)	**235,332,761**	237,744,296
Total equity attributable to owners of the Parent	**227,504,416**	219,433,817
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱462,837,177**	₱457,178,113
Gearing ratio (a/b)	**51%**	52%

25. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at March 31, 2014 and December 31, 2013:

			March 31, 2014		
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL:					
Investments held for trading Bonds	₱458,931	₱458,931	₱458,931	₱–	₱–
Derivative assets	3,009,315	3,009,315	–	3,009,315	–
	3,468,246	3,468,246	458,931	3,009,315	–
AFS investments:					
Shares of stock	13,888,805	13,888,805	13,888,805	–	–
Bonds and corporate notes	4,620,457	4,620,457	4,620,457	–	–
Club shares	11,970	11,970	11,970	–	–
	18,521,232	18,521,232	18,521,232	–	–
	21,989,478	21,989,478	18,980,163	3,009,315	–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Cash and cash equivalents	37,189,870	37,189,870	–	–	37,189,870
Time deposits and short-term investments (including noncurrent portion)	55,626,920	57,629,001	–	–	57,629,001
Receivables - net (including noncurrent portion of receivables from real estate buyers)	38,534,919	38,534,919	–	–	38,534,919
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	11,832,822	11,832,822	–	–	11,832,822
	143,184,531	145,186,612	–	–	145,186,612
	₱165,174,009	₱167,176,090	₱18,980,163	₱3,009,315	₱145,186,612
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	₱946,465	₱946,465	₱–	₱159,356	₱787,109
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Bank loans	20,472,959	20,472,959	–	–	20,472,959
Accounts payable and other current liabilities*	50,003,909	50,003,909	–	–	50,003,909
Long-term debt (including current portion and net of unamortized debt issue cost)	214,859,802	223,658,773	–	–	223,658,773
Dividends payable	209,640	209,640	–	–	209,640
Tenants' deposits and others	18,910,095	13,260,702	–	–	13,260,702
	304,456,405	307,605,983	–	–	307,605,983
	₱305,402,870	₱308,552,448	₱–	₱159,356	₱308,393,092

**Excluding payable to government agencies of ₱2,037.6 million at March 31, 2014, the amounts of which are not considered as financial liabilities.*

			December 31, 2013		
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL:					
Investments held for trading - Bonds	₱459,754	₱459,754	₱459,754	₱–	₱–
Derivative assets	2,643,487	2,643,487	–	2,643,487	–
	3,103,241	3,103,241	459,754	2,643,487	–
AFS investments:					
Shares of stock	11,607,236	11,539,018	11,539,018	–	–
Bonds and corporate notes	5,539,822	5,539,822	5,539,822	–	–

	December 31, 2013				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Club shares	11,260	11,260	11,260	–	–
	17,158,318	17,090,100	17,090,100	–	–
	20,261,559	20,193,341	17,549,854	2,643,487	–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Cash and cash equivalents	50,209,657	50,209,657	–	–	50,209,657
Time deposits and short-term investments (including noncurrent portion)	55,993,600	58,549,481	–	–	58,549,481
Receivables - net (including noncurrent portion of receivables from real estate buyers)	37,274,237	37,274,237	–	–	37,274,237
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets)	13,649,588	13,649,588	–	–	13,649,588
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets)	218,124	264,656	–	–	264,656
	157,345,206	159,947,619	–	–	159,947,619
	₱177,606,765	₱180,140,960	₱17,549,854	₱2,643,487	₱159,947,619
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	₱1,005,403	₱1,005,403	₱–	₱159,974	₱845,29
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Bank loans	27,588,259	27,588,259	27,588,259	–	–
Accounts payable and other current liabilities*	64,416,727	64,416,727	–	–	64,416,727
Long-term debt (including current portion and net of unamortized debt issue cost)	210,156,037	224,775,629	–	–	224,775,629
Dividends payable	210,189	210,189	–	–	210,189
Tenants’ deposits and others	17,967,224	13,047,622	–		13,047,622
	320,338,436	330,038,426	27,588,259	–	302,450,167
	₱321,343,839	₱331,043,829	₱27,588,259	₱159,974	₱303,295,596

**Excluding payable to government agencies of ₱3,671.6 million at December 31, 2013, the amounts of which are not considered as financial liabilities.*

During the three-month period ended March 31, 2014 and the year ended December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Fair Value Hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

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. The Group also has embedded derivatives bifurcated from the Parent Company's convertible bonds.

Derivative Assets

	March 31, 2014	December 31, 2013
	(In Thousands)	
Parent (see Note 15):		
Cross-currency swaps	**₱998,850**	₱864,677
SM Prime (see Note 15):		
Cross-currency swaps	**1,935,814**	1,668,400
Interest rate swaps	**74,651**	110,410
	₱3,009,315	₱2,643,487

Derivative Liabilities

	March 31, 2014	December 31, 2013
	(In Thousands)	
Parent:		
Options arising from convertible bonds	**₱787,109**	₱845,429
SM Prime -		
Interest rate swaps	**159,356**	159,974
	₱946,465	₱1,005,403

Cross Currency Swaps. In 2013, the SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on January 29, 2013, April 16, and June 2013.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate
	(In Thousands)		
	(In US$)	*(In PhP)*	
Parent -			
Unsecured loans	180,000	7,425,450	6-month US LIBOR + 1.70%
SM Prime:			
Unsecured loan	200,000	8,963,000	6-month US LIBOR + 1.70%
Unsecured loan	150,000	6,722,250	6-month US LIBOR + 1.70%

The table below provides the details of the Group's outstanding cross-currency swaps as at March 31, 2014:

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity
	(In Thousands)					
	(In US$)	*(In PhP)*				
Parent:						
Floating-to-Fixed	50,000	2,059,250	6M US LIBOR + 1.70%	4.05%	₱41.19	May 15, 2018
Floating-to-Fixed	60,000	2,478,000	6M US LIBOR + 1.70%	4.03%	41.30	May 15, 2018

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity
	(In Thousands)					
	(In US$)	*(In Ph₱)*				
Floating-to-Fixed	70,000	2,888,200	6M US LIBOR + 1.70%	3.98%	41.26	May 15, 2018
SM Prime:						
Floating-to-Fixed	150,000	6,100,500	6M US LIBOR + 1.70%	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,033,500	6M US LIBOR + 1.70%	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 23, 2018

Under the floating-to-fixed cross-currency swaps, the Parent Company and SM Prime effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans where, at inception, it agreed to swap US dollar principal equal to the face amount of the loans for their agreed Philippine peso equivalents with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped. The agreements also require the Parent Company and SM Prime to pay fixed interest at the Philippine peso notional amount and receives floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

Other Derivative Instruments Not Designated as Hedges

The table below shows information on the Group's interest rate swaps presented by maturity profile:

	March 31, 2014		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	**$145,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**2.91%–3.28%**		
Outstanding notional amount	**$30,000,000**	**$30,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.18%**	**3.18%**	
Outstanding notional amount	**$20,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**3.53%**		
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F**	**3MPDST-F**	
Pay-fixed rate	**3.65%**	**3.65%**	
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	
Pay-fixed rate	**4.95%**	**4.95%**	
Fixed-Floating			
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**5.44%**	**5.44%**	
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**7.36%**	**7.36%**	
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	

(Forward)

	December 31, 2013		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	$145,000,000	$145,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	2.91%–3.28%	2.91%–3.28%	

	March 31, 2014		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Outstanding notional amount	$30,000,000	$30,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.18%	3.18%	
Outstanding notional amount	$20,000,000	$–	$–
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	3.53%		
Outstanding notional amount	₱174,720,000	₱174,720,000	$–
Receive-floating rate	3MPDST-F	3MPDST-F	
Pay-fixed rate	3.65%	3.65%	
Outstanding notional amount	₱174,720,000	₱174,720,000	$–
Receive-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	
Pay-fixed rate	4.95%	4.95%	
Fixed-Floating			
Outstanding notional amount	₱960,000,000	₱950,000,000	$–
Receive-fixed rate	5.44%	5.44%	
Pay-floating rate	3MPDST-F	3MPDST-F	
Outstanding notional amount	₱960,000,000	₱950,000,000	$–
Receive-fixed rate	7.36%	7.36%	
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	

Derivative Liabilities

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds and were accounted for as single compound derivative. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 (₱26.9 at present) per share at the fixed exchange rate of ₱40.6 per US$1.0 until January 31, 2013, subject to a cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option, which expired on February 11, 2011, pertains to the right of the Parent Company to require the issuer to redeem the bonds at 115.6%.

As at March 31, 2014 and December 31, 2013, all outstanding embedded derivatives of the convertible bonds have nil values.

Options Arising from Convertible Bonds. The Parent Company's and SM Prime's convertible bonds contain multiple embedded derivatives such as short equity call option, long call option and short put option, which were bifurcated and accounted for as single compound derivative.

US$250.0 million Convertible Bonds
As at March 31, 2014 and December 31, 2013, the negative fair value of the multiple embedded derivatives, which is shown as a current liability in the parent company balance sheets, amounted to ₱787.1 million and ₱845.4 million, respectively. At inception date, the negative fair value of the options amounted to ₱1,193.9 million. In 2014 and 2013, the Parent Company recognized a net fair value change from these options amounting to ₱67.6 million gain and ₱1,321.0 million loss which is recognized under "Gain (loss) on fair value changes on derivatives - net" account and ₱9.3 million loss which is recognized under "Foreign exchange gain - net" account in the consolidated statements of income. Also, as a result of the exercise of the conversion option at various dates in 2013, ₱2,962.9 million of the option value was transferred from derivative liabilities to "Additional paid-in capital" (APIC) account in the parent company balance sheets.

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. As at March 31, 2014 and December 31, 2013, these interest rate swaps have negative fair value of ₱5.0 million and ₱9.0 million, respectively. In 2011, SM Prime entered into floating to fixed US$ interest rate swap agreements with 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 fixed rate loan with semi-annual payment intervals up to March 21, 2015. As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swaps have aggregate negative fair value of ₱112.0 million and ₱114.0 million, respectively.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20.0 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014. As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swap has negative fair value of ₱11.0 million and ₱10.0 million, respectively.

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

- A US$ interest rate swap agreement with 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 fixed rate loan with semi-annual payment intervals up to November 30, 2015. As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swap has negative fair value of ₱36.0 million.

- Two Philippine peso interest rate swap agreements with 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. In 2013, SMPH entered into two floating to fixed opposite-side Philippine peso interest rate swap agreements for a partial notional amount of ₱174.7 million each to effectively unwind the original swap in line with the Company's partial prepayment of the loan. As at March 31, 2014 and December 31, 2013, these swaps have positive fair value of ₱80.0 million and ₱ 110.0 million, respectively.

In 2009, SM Prime entered into US$ interest rate swap agreements with aggregate notional amount of US$25.0 million. Under these agreements, SM Prime effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013. Fair value changes from the matured swaps recognized in the consolidated statements of income amounted to ₱10.0 million gain in 2013.

Non-deliverable Forwards. In 2013, 2012 and 2011, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ with the same aggregate notional amount. The Group recognized derivative assets amounting to nil and ₱18.5 million from the outstanding forward contracts as at March 31, 2014 and December 31, 2013, respectively.

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Derivative assets	**3,009,315**	₱2,643,487
Derivative liabilities	**(946,465)**	(1,005,403)
Balance at end of period	**₱2,062,850**	₱1,638,084

26. **EPS Computation**

	March 31, 2014	March 31, 2013
	(In Thousands, Except for Per Share Data)	
Net Income Attributable to Common Owners of the Parent		
Net income attributable to common owners of the Parent for basic earnings (a)	**₱6,239,811**	₱7,421,180
Weighted Average Number of Common Shares Outstanding		
Weighted average number of common shares outstanding for the period (b)	**796,272**	781,176
Basic EPS (a/b)	**₱7.84**	₱9.50

27. **Reclassification**

The comparative information in the consolidated financial statements for the period ended March 31, 2013 has been reclassified to conform to the presentation of the financial statements for the period ended March 31, 2014.

28. **Events After the Reporting Period**

On April 25, 2014, SMIC invested an additional ₱103.0 million in CityMall Commercial Center Inc. (CMCCI) equivalent to 1.0 million shares.

On April 30, 2014, the BOD approved the declaration of cash dividends of 103.4% of the par value or ₱10.34 per share for a total amount of ₱8,233.5 million in favor of stockholders on record as at May 30, 2014. This will be paid on or before June 26, 2014.

PART 1 FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations
For the Three Months Ended March 31, 2014 and 2013
(Amounts in Billion Pesos)

	Three Months Ended		
	03/ 31 / 2014	**03 / 31 / 2013**	**% Change**
Revenues	**P 60.4**	**P 56.8**	**6.3%**
Cost and Expenses	48.3	42.2	14.6%
Income from Operations	**P 12.1**	**P 14.6**	**-17.6%**
Other Income (Charges)	(1.6)	(2.9)	-45.6%
Provision for Income Tax	1.8	1.6	10.2%
Non-controlling Interests	2.5	2.7	-8.9%
Net Income Attributable to Owners of the Parent	**P 6.2**	**P 7.4**	**-15.9%**

For the three months ended March 31, 2014, SM Investments Corporation (SMIC) posted a net income of P6.2 billion from P7.4 billion in the same period in 2013. Revenues grew by 6.3% to P60.4 billion, as against last year's P56.8 billion.

Income from operations decreased by 17.6% to P12.1 billion compared to P14.6 billion in the same period last year. Operating income margin and Net profit margin is at 20.0% and 10.3%, respectively.

The decline in profitability is attributable to exceptional trading gains recorded by SMIC's associate banks. On an underlying basis, Revenues grew by P6.7 billion or 12.4%, Income from operations grew by P0.5 billion or 4.6% and Net income grew by P0.6 billion or 11.0%.

Merchandise sales grew by 16.5% in 2014 mainly due to the opening of the following new stores from April 01, 2013 to March 31, 2014:

	SM Department Stores	***SM Supermarket***	***SaveMore Stores***	***SM Hypermarkets***
1	SM Aura	Aura	SaveMore TM Centerpoint	Jazz
2	SM BF Parañaque	BF Parañaque	SaveMore Acacia	FTI
3	-	-	SaveMore Project 8	Daet
4	-	-	SaveMore Sta. Maria Ilocos	-
5	-	-	SaveMore ARCC Bacoor	-
6	-	-	SaveMore Pili	-
7	-	-	SaveMore San Ildefonso	
8	-	-	SaveMore Marulas	-

	SM Department Stores	***SM Supermarket***	***SaveMore Stores***	***SM Hypermarkets***
9	-	-	SaveMore Free Choice	-
10	-	-	SaveMore Star J	-
11	-	-	SaveMore Lumina	-
12	-	-	SaveMore Meridien	-
13	-	-	Savenore Nunez	-
14	-	-	Savemore San Pedro	-
15	-	-	Savemore Sta. Cruz	-

Of the P42.2 billion merchandise sales in 2014, the non-food group and food group contributed 37.8% and 62.2%, respectively. Of the P36.2 billion merchandise sales in 2013, the non-food group and food group contributed 41.2% and 58.8%, respectively.

As of March 31, 2014, SMIC's retail subsidiaries operate 245 stores nationwide. These consist of 48 SM stores, 39 SM Supermarkets, 96 SaveMore stores, 40 SM Hypermarkets and 22 WalterMart stores.

Real estate sales recorded a 14.7% decrease to P5.1 billion in 2014 from P6.0 billion in 2013. The decrease is primarily due to sales take-up attributable to only two project launches in 2012 of about 4,600 units from Breeze and Grace Residences compared to the nine project launches in 2010 and 2011 of about 26,700 units mainly from Jazz, Light, Wind, Shell and Green Residences. On the average, it takes about two years before revenues are recognized due to the percentage of completion accounting.

Rent revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 15.8% to P7.7 billion in 2014 from P6.6 billion in 2013. SM Prime is the country's leading shopping mall developer and operator which owns 48 malls in the Philippines and five malls in China. The increase in Rent revenues is primarily due to the new malls which opened in 2012 and 2013, namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos and SM Lanang Premier, SM Aura Premier and SM City BF Parañaque, with a total gross floor area of 818,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%. Rental from commercial operations also increased, primarily due to the increase in occupancy rates and rental escalations based on lease agreements.

Cinema ticket sales and amusement revenues increased by P0.3 billion or 31.3% to P1.4 billion due to the opening of digital cinemas at the new malls and the showing of local blockbuster movies with 100% sales growth year-on-year. The opening of Sky Ranch in Tagaytay last March 2013 and the reopening of the ice skating rink in SM Megamall last January 2014 also contributed to the increase. Amusement revenue is mainly composed of income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland, merchandise sales from snack bars and food and beverages from hotels and convention centers.

Equity in net earnings of associates and joint ventures decreased by 44.8% to P3.1 billion in 2014 from P5.6 billion in 2013, primarily due to the 46% drop in net income of BDO which is attributed to the bank's exceptional trading gains in 2013. However, it is noteworthy that BDO's core businesses remained in high gear with further gains in loans and low cost deposits. BDO will continue to focus on its core lending and deposit-taking operations as well as its service businesses to drive earnings in 2014.

Dividend, management fees and other revenues decreased by 31.9% or P0.4 billion to P0.8 billion from P1.2 billion in 2013 due mainly to gain on sale of certain AFS investment in 2013 and none in 2014.

Cost and expenses increased by 14.6% to P48.3 from P42.2 billion in 2013. Selling, general and administrative expenses increased by 13.2% to P13.4 billion due mainly to additional operating expenses associated with mall expansions and new malls, retail stores, store renovations and current real estate projects.

Net other charges decreased by 45.6% to P1.6 billion. Interest expense decreased by 10.7% to P2.5 billion from P2.8 billion in 2013 due mainly to loan terminations in 2014 and the last three quarters of 2013. Interest income decreased by 21.3% to P0.8 billion from P1.0 billion in 2013 due to lower average of temporary investments. The P1.4 billion or -104.1% change in the loss on fair value changes on derivatives pertain mainly to the P1.3 billion fair value loss on the US$250.0 million convertible bonds of SMIC incurred in 2013 (refer to Note 16 of the consolidated financial statements). Foreign exchange gains and others decreased by 54.2% to P107.7 million from P235.3 million in 2013 due mainly to decrease in foreign exchange rate from P40.80:US$1.00 in 2013 to P44.815:US$1.00 in 2014.

Provision for income tax increased by 10.2% to P1.8 billion from P1.6 billion in 2013 due mainly to higher taxable income. The effective income tax rate is 17% in 2014 and at 14% in 2013.

Non-controlling interests decreased by 8.9% to P2.5 billion from P2.7 billion in 2013 due to reduced net income of certain subsidiaries that are not wholly owned.

Financial Position
As of March 31, 2014 and December 31, 2013
(Amounts in Billion Pesos)

	03 / 31 / 2014 (Unaudited)	12 / 31 / 2013 (Audited)	% Change
Current assets	P 151.6	P 162.9	-7.0%
Noncurrent assets	477.5	470.1	1.6%
Total assets	**P 629.1**	**P 633.0**	**-0.6%**
Current liabilities	P 112.5	P 132.1	-14.8%
Noncurrent Liabilities	204.4	200.7	1.8%
Total Liabilities	**316.9**	**332.8**	**-4.8%**
Equity	**312.2**	**300.2**	**4.0%**
Total Liabilities and Equity	**P 629.1**	**P 633.0**	**-0.6%**

Total assets decreased by 0.6% to P629.0 billion from P633.0 billion in 2013. On the other hand, total liabilities decreased by 4.8% to P316.9 billion from P332.8 billion in 2013.

Current assets decreased by 7.0% to P151.6 billion from P162.9 billion in 2013. Cash and cash equivalents decreased by 25.9% to P37.2 billion from P50.2 billion in 2013 due mainly to payments of loans and capital expenditures. Time deposits and short term investments decreased by 2.2% to P28.3 billion from P28.9 billion in 2013. Investments held for trading and sale increased by 91.2% to P2.1 billion from P1.1 billion in 2013 due to reclassification from non-current to current of maturing Available-for-sale investments. Other current assets decreased by 6.5% to P40.1 billion from P42.8 billion in 2013 due to collection of advances, non-trade receivables and receivable from banks. These were partially offset by the increase in Receivables of 13.9% to P30.3 billion from P26.6 billion in 2013 due mainly to the increase in receivable from real estate buyers resulting from higher sales volume and construction accomplishments.

Noncurrent assets increased by 1.6% to P477.5 billion from P470.1 billion in 2013. Investments in shares of stock of associates and joint ventures increased by 1.1% to P140.5 billion from P139.0 billion in 2013 while Available-for-sale investments increased by 2.1% to P16.8 billion from P16.5 billion in 2013. Time deposits increased by 0.9% to P27.4 billion from P27.1 billion in 2013. Investment properties increased by 2.1% to P196.7 billion from P192.6 billion in 2013 while Other non-current assets increased by 4.6% to P29.8 billion from P28.4 billion in 2013. Deferred tax assets increased by 12.9% to P2.4 billion from P2.2 billion in 2013 due mainly to NOLCO and difference between the financial and taxable gross profit on sale of real estate properties. These are partially offset by the decrease in Land and development by 4.1% to P24.6 billion from P25.7 billion in 2013.

Current liabilities decreased by 14.8% to P112.5 billion from P132.1 billion in 2013 due mainly to loan payments in 2014 which decreased Bank loans by 25.8% to P20.5 billion from P27.6 billion in 2013 and Accounts payable and other current liabilities by 23.6% to P52.0 billion from P68.1 billion in 2013 resulting from settlement of payables. These were partially offset by the increase in Current portion of long term debt by 8.6% to P37.5 billion from P34.6 billion in 2013 due to reclassification of maturing loans from non-current to current portion and increase in Income tax payable by 38.6% to P2.2 billion from P1.6 billion in 2013 which was subsequently paid in April 2014.

Noncurrent liabilities increased by 1.8% to P204.4 billion from P200.7 billion in 2013 due mainly to the 1.0% increase in Long-term debt - net of current portion from P175.6 billion to P177.3 billion in 2014 (See Note 16 to the consolidated financial statements) and 6.1% increase in Tenants' deposits and others to P19.1 billion from P18.0 billion in 2013 due mainly to new malls and expansions and new condominium projects of the Real Estate group. The P0.8 billion or 12.1% increase in Deferred tax liabilities arose mainly from fair value gain on investment properties.

Equity amounted to P312.2 billion as of March 31, 2014, while Equity attributable to owners of the parent amounted to P227.5 billion. The 4.6% or P0.1 billion decrease in Cumulative translation adjustment resulted mainly from the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine Peso. Net unrealized mark-to-market gain on AFS investments increased by 14.3% to P8.4 billion from P7.3 billion in 2013 mainly due to the increase in the market value of AFS investments of subsidiaries and associates. Non-controlling interests increased by 4.8% to P84.7 billion from P80.8 billion mainly due to increase in the net assets of certain subsidiaries that are not wholly owned.

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

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

Key Financial Ratios

The following are the key financial ratios of SMIC for the three months ended March 31, 2014 and 2013 and for the year ended December 31, 2013:

	03 / 31 / 2014 (Three months)	**12 / 31 / 2013 (One Year)**
Current Ratio	1.35	1.23
Asset to Equity Ratio	2.01	2.11
Debt-equity Ratios:		
On Gross Basis	51: 49	52 : 48
On Net Basis	38: 62	37 : 63

	03 / 31 / 2014 (Three months)	**03 / 31 / 2013 (Three months)**
Revenue Growth	6.3%	14.6%
Net Income to Revenues	10.3%	13.1%
Net Income Growth	-15.9%	22.8%
Return on Equity	12.1%	13.5%
EBITDA *(In Billions of Pesos)*	P14.7B	P17.0B
Interest Coverage Ratio	6.69x	5.58x

Current ratio improved to 1.35 from 1.23 in 2013 due mainly to higher decrease in Current liabilities of 14.8% as compared to decrease in Current assets of 7.0%. The decrease in Current assets was partially offset by reclassifications from non-current to current of Receivable from real estate buyers, Land and development, and Available-for-sale investments.

Asset to equity ratio decreased to 2.01 from 2.11 in 2013 due mainly to a 0.6% lower asset base, mainly cash and cash equivalents, and 4.0% higher equity base, mainly comprised of P8.7 billion net income earned in Q1 2014, P1.0 billion increase in market value of AFS investments, and, the P0.7 billion adjustment in Equity adjustments from common control transactions resulting from the finalization of values relative to the acquisition of a subsidiary.

Gross debt-equity ratio decreased to 51:49 from 52:48 in 2013 due to a higher increase in equity base of 3.7% compared to a 1.0% decrease in gross debts.

Net debt-equity ratio increased to 38:62 from 37:63 in 2013 due to a P12.6 billion or 25.7% lower cash and cash equivalents which was used to pay off trade payables and capital expenditures.

Revenue growth decreased to 6.3% in 2014 due mainly to the 2013 extra-ordinary trading gains of SMIC's bank associates. On an underlying basis, revenue growth is 12.4% mainly coming from merchandise sales, rent, and, equity in earnings of SMIC's bank associates.

Net income declined by 15.9% from a growth of 22.8% in 2013 due mainly to the 2013 exceptional trading gains of SMIC's bank associates. On an underlying basis, net income growth is at 11.0%.

Return on equity decreased slightly to 12.1% from 13.5%.

EBITDA decreased to P14.7 billion from P17.0 billion in 2013. On an underlying basis, EBITDA increased by P13.8 billion or 6.3%.

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

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

Expansion Plans / Prospects for the Future

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

SM Prime currently has twenty-one residential projects in the market, twenty of which are in Metro Manila and one in Tagaytay. For the rest of 2014, SM Prime will launch four new projects and four expansions of existing towers all in Metro Manila, except Wind in Tagaytay, equivalent to about 15,000 additional units. For its commercial operations, SM Prime has topped off the third E-com building. It will also break ground on another E-com building in the third quarter.

For hotels and convention centers, SM Prime is slated to open SMX Convention Center in Bacolod in the second half of the year. Park Inn by Radisson in Pampanga and Conrad Hotel Manila in the Mall of Asia Complex are expected to be opened in the last quarter of 2015.

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

For the rest of the year, the Retail Group will be opening two SM Stores, one SM Supermarket, twelve SaveMore stores and two SM Hypermarkets.

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 March 31, 2014
(Amounts in Thousands)

Receivable from Tenants		
Third-party tenants	₱	3,073,015
Related-party tenants		2,166,316
Receivables from Real Estate Buyers & others		
- net of non-current portion		22,018,888
Total	₱	27,258,219

Aging:

Neither past due nor impaired	₱	19,572,302
31-90 days		2,068,811
91-120 days		767,940
Over 120 days		4,136,273
Impaired		712,893
Total	₱	27,258,219

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**

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

Date: 05-14-14