COVER SHEET

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SEC Registration Number

S M I N V E S T M E N T S C O R P O R A T I O N A N D S U B S I D I A R I E S

(Company's Full Name)

1 0 t h F l o o r , O n e E - C o m C e n t e r , H a r b o r D r i v e , M a l l o f A s i a C o m p l e x , C B P - 1 A , P a s a y C i t y 1 3 0 0

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

Mr. Jose T. Sio

(Contact Person)

857-0100

(Company Telephone Number)

0 9 3 0

Month *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

0 4 3 0

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
3rd Quarter Report

Form Type

Amendment Designation (If applicable)

September 30, 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 **September 30, 2014**

2. SEC 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: **Not Applcable**

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding	
COMMON STOCK P10 PAR VALUE	**796,340,646**	**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 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA 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 [ ]

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets as of September 30, 2014 (Unaudited), December 31, 2013 (Audited)
Consolidated Statements of Income for the Nine Months Ended September 30, 2014 and 2013 (Unaudited)
Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2014 and 2013 (Unaudited)
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 (Unaudited)
Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition as of September 30, 2014 and December 31, 2013 and Results of Operations for the Nine Months ended September 30, 2014 and 2013

Item 3. Aging of Accounts Receivable – Trade as of September 30, 2014

PART II – SIGNATURE

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
As of September 30, 2014 and December 31, 2013
and for the Nine Months Ended September 30, 2014 and 2013

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 24 and 25)	**₱56,472,229**	₱50,209,657
Time deposits and short-term investments (Notes 6, 24 and 25)	**9,031,455**	28,912,650
Investments held for trading and sale (Notes 7, 24 and 25)	**1,983,443**	1,118,980
Receivables (Notes 8, 24 and 25)	**30,197,038**	26,637,734
Merchandise inventories - at cost (Note 21)	**14,880,884**	13,232,308
Other current assets (Notes 9, 24 and 25)	**54,046,842**	42,827,624
Total Current Assets	**166,611,891**	162,938,953
Noncurrent Assets		
Available-for-sale investments (Notes 10, 24 and 25)	**20,067,735**	16,499,092
Investments in shares of stock of associates and joint ventures (Note 11)	**146,198,205**	138,994,366
Time deposits (Notes 6, 24 and 25)	**45,323,750**	27,080,950
Property and equipment (Note 12)	**18,561,583**	18,323,380
Investment properties (Notes 13 and 20)	**214,317,909**	192,609,189
Land and development (Note 14)	**25,329,533**	25,666,930
Intangibles (Note 15)	**20,962,063**	20,255,055
Deferred tax assets - net (Note 22)	**2,476,212**	2,172,799
Other noncurrent assets (Notes 15, 24 and 25)	**26,182,031**	28,453,455
Total Noncurrent Assets	**519,419,021**	470,055,216
	₱686,030,912	₱632,994,169
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 16, 18, 24 and 25)	**₱13,453,845**	₱27,588,259
Accounts payable and other current liabilities (Notes 17, 24 and 25)	**65,894,453**	68,088,327
Income tax payable	**1,202,774**	1,612,784
Current portion of long-term debt (Notes 18, 24 and 25)	**11,662,815**	34,566,619
Dividends payable (Notes 24 and 25)	**207,255**	210,189
Total Current Liabilities	**92,421,142**	132,066,178
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18, 24 and 25)	**243,585,411**	175,589,418
Deferred tax liabilities - net (Note 22)	**8,303,525**	6,970,527
Tenants' deposits and others (Notes 24 and 25)	**21,236,991**	18,127,198
Total Noncurrent Liabilities	**273,125,927**	200,687,143
Total Liabilities	**365,547,069**	332,753,321
Equity Attributable to Owners of the Parent		
Capital stock (Note 19)	**7,963,406**	7,962,723
Additional paid-in capital (Note 19)	**57,846,553**	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	**1,110,133**	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)	**9,714,826**	7,338,500
Retained earnings (Note 19):		
Appropriated	**27,000,000**	27,000,000
Unappropriated	**130,827,982**	120,904,727
Total Equity Attributable to Owners of the Parent	**232,386,182**	219,433,817
Non-controlling Interests	**88,097,661**	80,807,031
Total Equity	**320,483,843**	300,240,848
	₱686,030,912	₱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)

	Nine months ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
REVENUE		
Sales:		
Merchandise	**₱136,401,458**	₱124,897,197
Real estate	**16,326,917**	16,094,940
Rent (Notes 13, 20 and 23)	**23,811,671**	20,533,024
Equity in net earnings of associates and joint ventures (Note 11)	**9,715,366**	10,983,350
Cinema ticket sales, amusement and others	**4,344,682**	3,859,691
Dividend, management fees and others	**2,617,916**	3,064,580
	193,218,010	179,432,782
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 21)	**104,192,814**	95,187,742
Real estate	**9,293,113**	9,815,402
Selling, general and administrative expenses	**42,354,413**	38,145,086
	155,840,340	143,148,230
OTHER INCOME (CHARGES)		
Interest expense (Note 24)	**(8,493,574)**	(8,096,306)
Interest income	**2,302,126**	2,841,878
Loss on fair value changes on derivatives - net (Notes 18 and 25)	**(213,860)**	(401,144)
Foreign exchange gain and others (Note 24)	**276,765**	544,966
	(6,128,543)	(5,110,606)
INCOME BEFORE INCOME TAX	**31,249,127**	31,173,946
PROVISION FOR INCOME TAX		
Current	**5,381,676**	4,688,758
Deferred	**247,002**	115,577
	5,628,678	4,804,335
NET INCOME	**₱25,620,449**	₱26,369,611
Attributable to		
Owners of the Parent (Note 26)	**₱18,156,710**	₱18,549,619
Non-controlling interests	**7,463,739**	7,819,992
	₱25,620,449	₱26,369,611
Earnings Per Common Share (Note 26)		
Basic	**₱22.80**	₱23.56

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 September 30	
	2014 (Unaudited)	2013 (Unaudited)
REVENUE		
Sales:		
Merchandise	**₱45,205,726**	₱41,306,836
Real estate and others	**4,219,303**	3,798,203
Rent	**7,871,460**	6,911,819
Equity in net earnings of associates and joint ventures	**3,167,023**	3,027,417
Cinema ticket sales, amusement and others	**1,191,412**	1,164,763
Dividends, management fees and others	**698,745**	1,113,424
	62,353,669	57,322,462
COST AND EXPENSES		
Cost of sales:		
Merchandise	**34,855,184**	31,920,308
Real estate and others	**2,417,004**	2,261,073
Selling, general and administrative expenses	**13,535,009**	12,523,658
	50,807,197	46,705,039
OTHER INCOME (CHARGES)		
Interest expense	**(2,976,613)**	(2,666,477)
Interest income	**761,793**	893,512
Gain on fair value changes on derivatives - net	**238,611**	336,080
Foreign exchange gain and others	**14,222**	200,604
	(1,961,987)	(1,236,281)
INCOME BEFORE INCOME TAX	**9,584,485**	9,381,142
PROVISION FOR INCOME TAX		
Current	**1,625,569**	1,295,176
Deferred	**45,659**	(128,927)
	1,671,228	1,166,249
NET INCOME	**₱7,913,257**	₱8,214,893
Attributable to		
Equity holders of the Parent	**₱5,846,322**	₱5,843,268
Non-controlling interests	**2,066,935**	2,371,625
	₱7,913,257	₱8,214,893
Earnings Per Common Share		
Basic	**₱7.34**	₱7.42

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Nine months ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
NET INCOME	**₱25,620,449**	₱26,369,611
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)	**5,278,414**	1,686,610
Share in unrealized loss on available-for-sale investments of associates - net (Notes 10 and 11)	**(119,242)**	(2,731,342)
Cumulative translation adjustment of a subsidiary	**(217,077)**	654,665
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**(782,582)**	111,673
	4,159,513	(278,394)
Items not to be reclassified to profit or loss in subsequent periods		
Remeasurement loss on defined benefit obligation	**–**	(157,575)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**–**	47,272
	–	(110,303)
TOTAL COMPREHENSIVE INCOME	**₱29,779,962**	₱25,980,914
Attributable to		
Owners of the Parent	**₱20,409,992**	₱17,089,739
Non-controlling interests	**9,369,970**	8,891,175
	₱29,779,962	₱25,980,914

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three months ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
NET INCOME	**₱7,913,257**	₱8,214,893
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)	**1,614,109**	482,439
Share in unrealized loss on available-for-sale investments of associates - net (Notes 10 and 11)	**(671,352)**	(599,999)
Cumulative translation adjustment of a subsidiary	**381,690**	(388,474)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**7,110**	97,848
	1,331,557	(408,186)
Items not to be reclassified to profit or loss in subsequent periods		
Remeasurement loss on defined benefit obligation	**–**	(48,074)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**–**	14,422
	–	(33,652)
TOTAL COMPREHENSIVE INCOME	**₱9,244,814**	₱7,773,055
Attributable to		
Owners of the Parent	**₱6,277,691**	₱5,434,743
Non-controlling interests	**2,967,123**	2,338,312
	₱9,244,814	₱7,773,055

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	–	–	–	–	–	–	–	–	**18,156,710**	**18,156,710**	**7,463,739**	**25,620,449**
Other comprehensive income	–	–	–	–	**(123,044)**	–	**2,376,326**	–	–	**2,253,282**	**1,906,231**	**4,159,513**
Total comprehensive income for the period	–	–	–	–	**(123,044)**	–	**2,376,326**	–	**18,156,710**	**20,409,992**	**9,369,970**	**29,779,962**
Common control transactions	–	–	**727,952**	–	–	–	–	–	–	**727,952**	–	**727,952**
Cash dividends – ₱10.34 per share	–	–	–	–	–	–	–	–	**(8,233,455)**	**(8,233,455)**	–	**(8,233,455)**
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	–	**481,815**	**481,815**
Issuance of Parent Company common shares	**683**	**47,193**	–	–	–	–	–	–	–	**47,876**	–	**47,876**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(2,561,155)**	**(2,561,155)**
Balance at September 30, 2014	**₱7,963,406**	**₱57,846,553**	**(₱1,856,258)**	**(₱25,386)**	**₱1,110,133**	**(₱195,074)**	**₱9,714,826**	**₱27,000,000**	**₱130,827,982**	**₱232,386,182**	**₱88,097,661**	**₱320,483,843**
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	–	–	–	–	–	–	–	–	18,549,619	18,549,619	7,819,992	26,369,611
Other comprehensive income	–	–	–	–	525,025	(131,233)	(1,853,672)	–	–	(1,459,880)	1,071,183	(388,697)
Total comprehensive income for the period	–	–	–	–	525,025	(131,233)	(1,853,672)	–	18,549,619	17,089,739	8,891,175	25,980,914
Cash dividends – ₱11.80 per share	–	–	–	–	–	–	–	–	(7,423,076)	(7,423,076)	–	(7,423,076)
Stock dividends – 25%	1,576,300	–	–	–	–	–	–	–	(1,576,300)	–	–	–
Common control transactions	–	–	7,205,431	–	–	–	–	–	–	7,205,431	–	7,205,431
Issuance of Parent Company common shares	154,078	14,616,296	–	–	–	–	–	–	–	14,770,374	–	14,770,374
Reversal of appropriation	–	–	–	–	–	–	–	(8,000,000)	8,000,000	–	–	–
Disposal of common shares	–	–	–	100,520	–	–	–	–	–	100,520	–	100,520
Decrease in non-controlling interests	–	–	–	–	–	–	–	–	–	–	(5,625,239)	(5,625,239)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,129,846)	(2,129,846)
Balance at September 30, 2013	₱7,960,124	₱57,475,216	₱4,872,635	(₱25,386)	₱791,940	(₱131,233)	₱9,864,887	₱27,000,000	₱112,008,937	₱219,817,120	₱74,706,936	₱294,524,056

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Nine months ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱31,249,127**	₱31,173,946
Adjustments for:		
Interest expense	**8,493,574**	8,096,306
Depreciation and amortization (Notes 12 and 13)	**8,188,045**	7,104,826
Equity in net earnings of associates and joint ventures (Note 11)	**(9,715,366)**	(10,983,350)
Interest income	**(2,302,126)**	(2,841,878)
Loss on fair value changes on derivatives - net (Note 25)	**213,860**	401,144
Dividends and others	**(109,077)**	(399,872)
Unrealized foreign exchange loss (gain) and others	**227,573**	(255,370)
Income before working capital changes	**36,245,610**	32,295,752
Decrease (increase) in:		
Land and development	**(22,452,516)**	(12,903,844)
Merchandise inventories	**(1,648,577)**	(626,597)
Receivables	**1,124,043**	(6,256,761)
Other current assets	**2,585,544**	1,313,444
Increase (decrease) in:		
Accounts payable and other current liabilities	**(2,834,112)**	(7,122,004)
Tenants' deposits and others	**3,169,018**	23,387,727
Net cash used in operations	**16,189,010**	30,087,717
Income tax paid	**(5,790,534)**	(5,188,420)
Net cash provided by operating activities	**10,398,476**	24,899,297
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Property and equipment	**209,906**	280,840
Available-for-sale investments	**2,154,910**	(292,316)
Investment properties	**25,222**	374,927
Additions to:		
Investment properties (Note 13)	**(27,704,470)**	(18,041,590)
Investments in shares of stock of associates and joint ventures	**(1,899,792)**	(39,095)
Property and equipment (Note 12)	**(3,216,873)**	(4,414,344)
Available-for-sale investments	**(1,370,233)**	–
Decrease in:		
Other noncurrent assets	**7,740,420**	1,136,968
Time deposits and short-term investments	**2,209,675**	3,259,498
Acquisition of a subsidiary	**–**	(2,963,535)
Interest received	**2,695,509**	3,369,570
Dividends received (Note 11)	**3,833,661**	4,416,640
Net cash used in investing activities	**(15,322,065)**	(12,912,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Long-term debt	**74,821,854**	55,582,550
Bank loans	**8,965,442**	41,409,027
Payments of:		
Long-term debt	**(31,104,902)**	(60,376,028)
Bank loans	**(23,114,255)**	(44,477,690)
Interest	**(7,644,384)**	(8,913,137)
Dividends paid	**(10,797,543)**	(7,293,882)
Proceeds from issuance of new common shares	**–**	6,443,075
Disposal of Parent common shares held by subsidiaries	**–**	100,520
Net cash provided by (used in) financing activities	**11,126,212**	(17,525,565)

(Forward)

	Nine months ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱6,202,623**	(₱5,538,705)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**59,949**	132,189
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**50,209,657**	60,714,720
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**₱56,472,229**	₱55,308,204

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On June 3, 2009, the Philippine Securities and Exchange Commission (SEC) approved the amendment of SMIC's articles of incorporation for the extension of the 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, 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 have been prepared on a historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) investments, which are measured at fair value.

The consolidated financial statements do not include all of the information and disclosures required in the December 31, 2013 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2013.

The consolidated financial statements are presented in Philippine Peso, and 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. For the nine-month period ended September 30, 2014, there were no significant changes in the Parent Company's ownership interests in its subsidiaries as listed below.

		Percentage of Ownership			
		September 30, 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 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

		Percentage of Ownership			
		September 30, 2014		December 31, 2013	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
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
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	–

3. Summary of Significant Accounting Policies

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS and PAS which the Group has adopted starting January 1, 2014:

- PFRS 10, PFRS 12 and PAS 27 - *Investment Entities (Amendments)*, became effective for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans :Employees Contributions (Amendments).*

  Applies 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.

- 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.

- 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.

- Philippine Interpretation IFRIC 21, *Levies*.

  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. 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.

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 September 30, 2014. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

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.* 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 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.* 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 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 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 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.

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'.* 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 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 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. 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 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

	September 30, 2014				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱45,748,438	₱138,472,093	₱8,997,479	₱–	₱193,218,010
Inter-segment	5,276,008	2,405	14,493,248	(19,771,661)	–
	₱51,024,446	₱138,474,498	₱23,490,727	(₱19,771,661)	₱193,218,010
Segment results:					
Income before income tax	₱18,531,613	₱5,698,786	₱4,765,739	₱2,252,989	₱31,249,127
Provision for income tax	(3,833,267)	(1,729,064)	(66,347)	–	(5,628,678)
Net income	₱14,698,346	₱3,969,722	₱4,699,392	2,252,989	₱25,620,449
Net income attributable to:					
Owners of the Parent	₱14,330,827	₱3,808,330	₱4,699,392	(₱4,681,839)	₱18,156,710
Non-controlling interests	367,519	161,392	–	6,934,828	7,463,739
Segment assets (excluding deferred tax)	₱414,116,455	₱60,030,597	₱255,510,643	(₱46,102,995)	₱683,554,700
Segment liabilities (excluding deferred tax)	₱211,803,046	₱31,172,095	₱146,518,211	(₱32,249,808)	₱357,243,544
Other information:					
Investments in shares of stock of associates and joint ventures	₱ 12,936,538	₱157,076	₱133,104,591	₱–	₱146,198,205
Equity in net earnings of associates and joint ventures	715,240	27,411	8,972,715	–	9,715,366
Capital expenditures	50,025,339	2,835,122	513,398	–	53,373,859
Depreciation and amortization	5,249,280	2,791,042	147,723	–	8,188,045

	September 30, 2013				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱40,732,776	₱126,932,955	₱11,767,051	₱–	₱179,432,782
Inter-segment	7,752,107	25,397	14,036,005	(21,813,509)	–
	₱48,484,883	₱126,958,352	₱25,803,056	(21,813,509)	₱179,432,782
Segment results:					
Income before income tax	₱19,666,541	₱5,692,239	₱7,146,578	(₱1,331,412)	₱31,173,946
Provision for income tax	(2,966,261)	(1,661,228)	(192,715)	15,869	(4,804,335)
Net income (loss)	₱16,700,280	₱4,031,011	₱6,953,863	(₱1,315,543)	₱26,369,611
Net income (loss) attributable to:					
Owners of the Parent	₱16,406,650	₱3,772,067	₱6,953,862	(₱8,582,960)	₱18,549,619
Non-controlling interests	293,630	258,945	–	7,267,417	7,819,992
Segment assets (excluding deferred tax)	₱355,011,584	₱55,214,780	₱233,797,229	(₱47,685,694)	₱596,337,899
Segment liabilities (excluding deferred tax)	₱170,249,719	₱27,070,177	₱127,209,189	(₱26,763,299)	₱297,765,786
Other information:					
Investments in shares of stock of associates	₱6,145,989	₱106,309	₱124,988,691	₱–	₱131,240,989
Equity in net earnings of associates	746,897	16,270	10,220,183	–	10,983,350
Capital expenditures	30,000,229	3,703,678	1,655,871	–	35,359,778
Depreciation and amortization	4,032,151	2,544,745	527,930	–	7,104,826

5. Cash and Cash Equivalents

This account consists of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Cash on hand and in banks (see Note 20)	**₱5,055,708**	₱10,202,986
Temporary investments (see Note 20)	**51,416,521**	40,006,671
	₱56,472,229	₱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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Time deposits:		
Pledged (see Notes 18 and 20)	**₱21,540,000**	₱21,087,625
Not pledged (see Note 20)	**32,815,205**	34,018,075
	54,355,205	55,105,700
Short-term investments (see Note 20)	**–**	887,900
	54,355,205	55,993,600
Less current portion	**9,031,455**	28,912,650
Noncurrent portion	**₱45,323,750**	₱27,080,950

A portion of the time deposits amounting to US$480.0 million, with peso equivalent of ₱21,540.0 million as at September 30, 2014 and US$475.0 million, with peso equivalent of ₱21,087.6 million as at December 31, 2013 bear interest ranging from 2.0% to 4.9% and 4.1% to 5.4% as at September 30, 2014 and December 31, 2013, respectively, are used as collateral for loans obtained by the Group (see Note 18).

In February 2014, SM Prime preterminated a time deposit amounting to ₱887.9 million with an original maturity of October 2014.

7. Investments Held for Trading and Sale

This account consists of :

	September 30, 2014	December 31, 2013
	(In Thousands)	
Investments held for trading		
Bonds (see Note 20)	**₱306,499**	₱459,754
AFS investments		
Bonds	**999,512**	–
Shares of stock	**677,432**	659,226
	₱1,983,443	₱1,118,980

The Group recognized a loss of nil and ₱2.7 million from fair value adjustments of investments held for trading for the nine months ended September 30, 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 ₱445.0 million and ₱334.9 million as at September 30, 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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Land and development (see Note 14)	**₱27,243,997**	₱12,542,783
Prepaid taxes and other prepayments	**6,575,038**	5,652,642
Condominium units for sale (see Note 14)	**5,710,697**	6,213,523
Non-trade receivables, net of allowance for impairment loss of ₱5.7 million	**4,598,326**	5,086,936
Advances and deposits	**4,424,413**	5,091,059
Input tax	**2,397,608**	2,987,264
Escrow fund	**628,851**	439,119
Accrued interest receivable	**566,380**	959,763
Receivable from banks and credit cards	**464,576**	2,423,215
Advances for project development (see Note 20)	**42,860**	88,615
Others	**1,394,096**	1,342,705
	₱54,046,842	₱42,827,624

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year.

- 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. Under this temporary license to sell, all payments, inclusive of downpayments, reservation and monthly amortization, among others, made by the buyers within the selling period shall be deposited in the escrow account.

- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on a 30 to 90 days term.
- 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. As at September 30, 2014 and December 31, 2013 allowance for impairment losses amounted to ₱31.3 million.

Investments in bonds and corporate notes as at September 30, 2014 and December 31, 2013 include third party bonds and corporate notes with fixed interest rates ranging from 3.88% to 7.45%. These investments will mature on various dates beginning on February 9, 2015 until October 9, 2023.

Gain on disposal of AFS investments recognized under "Dividend, management fees and others" account in the consolidated statements of income amounted to ₱29.6 million and ₱153.7 million for the nine months ended September 30, 2014 and 2013, respectively. Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to ₱5,049.0 million and ₱3,593.9 million as at September 30, 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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Cost:		
Balance at the beginning of the year	**₱96,600,517**	₱92,840,123
Additions	**1,899,792**	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	**98,500,309**	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	**9,715,366**	13,602,269
Dividends received	**(4,290,231)**	(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	**47,818,984**	45,150,603

(Forward)

	September 30, 2014	December 31, 2013
	(In Thousands)	
Share in net unrealized gain (loss) on AFS investments of associates	**(119,242)**	(2,756,754)
Translation adjustment	**(1,846)**	–
Allowance for impairment loss:		
Balance at the beginning of the year	**–**	775,047
Recovery	**–**	(775,047)
Balance at the end of the period	**–**	–
	₱146,198,205	₱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				
	September 30, 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. (Atlas)	**29**	**29**	29	29	Mining
Sodexo Motivation Solutions Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**25**	25	25	Retail
CityMall Commercial Center Inc. (CityMall)	**34**	**34**	–	–	Shopping mall development
Joint Venture					
Waltermart Mall	**51**	**26**	51	26	Shopping mall development

CityMall Commercial Center Inc. (CityMall)

On February 17, 2014, SMIC signed an Investment and Shareholders Agreement for the acquisition of 34.0% ownership interest in CityMall amounting to ₱0.03 million. The remaining 66.0% of the outstanding capital is held by DoubleDragon Properties Corp.

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

China Banking Corporation (China Bank)

In April 2014, Chinabank had a stock rights offering which entitled each eligible stockholder to subscribe to one share for every 8.834 shares held as at record date at an offer price of ₱49.50 per share. On May 2, 2014, the Group exercised its rights and paid ₱1,739.4 million equivalent to 35.2 million Chinabank shares.

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
BDO	**₱183,041,671**	₱158,844,179
China Bank	**18,214,409**	19,003,197
Belle	**17,202,515**	16,434,274
Atlas	**9,644,573**	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	–	609,292	185,134	295,770	475,961	310,909	485,077	25,276	829,454	3,216,873
Reclassifications	–	4,649,304	(8,596,352)	482,245	(43,002)	217,693	3,548,164	3,134	(661,707)	(400,521)
Disposals/retirements	–	(6,480)	(1,197)	(26,437)	(14,839)	(9,231)	(115,877)	(777)	(111,177)	(286,015)
Balance as at September 30, 2014	**₱–**	**₱9,657,982**	**₱2,626,602**	**₱5,375,027**	**₱5,032,747**	**₱4,170,949**	**₱11,620,787**	**₱714,327**	**₱1,383,924**	**₱40,582,345**
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	–	581,073	497,462	446,508	486,433	387,204	997,861	(255,442)	–	3,141,099
Reclassifications	–	738,882	(6,082,498)	(76,983)	(5,975)	40,151	4,308,638	300,030	–	(777,755)
Disposals/retirements	–	(3,178)	(293)	(2,307)	(5,644)	(1,058)	(57,953)	(777)	–	(71,210)
Balance as at September 30, 2014	**₱–**	**₱2,646,821**	**₱1,602,381**	**₱3,565,636**	**₱3,114,641**	**₱2,733,879**	**₱7,926,943**	**₱430,461**	**₱–**	**₱22,020,762**
Net Book Value										
As at September 30, 2014	**₱–**	**₱7,011,161**	**₱1,024,221**	**₱1,809,391**	**₱1,918,106**	**₱1,437,070**	**₱3,693,844**	**₱283,866**	**₱1,383,924**	**₱18,561,583**
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 September 30, 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 ₱10,294.3 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	7,903,423	3,721,952	1,007,258	15,071,837	27,704,470
Reclassifications	5,217,877	7,074,503	(4,486,538)	(3,425,580)	4,380,262
Translation adjustment	(19,927)	(55,768)	(6,995)	(28,972)	(111,662)
Balance as at September 30, 2014	**₱53,239,362**	**₱145,971,889**	**₱25,277,031**	**₱37,947,403**	**₱262,435,685**
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	253,733	3,177,657	1,615,556	–	5,046,946
Reclassifications	587,222	4,642,275	(2,390)	–	5,227,107
Translation adjustment	1,049	(8,079)	(2,673)	–	(9,703)
Balance as at September 30, 2014	**₱1,467,894**	**₱32,435,318**	**₱14,091,000**	**₱123,564**	**₱48,117,776**
Net Book Value					
As at September 30, 2014	**₱51,771,468**	**₱113,536,571**	**₱11,186,031**	**₱37,823,839**	**₱214,317,909**
As at December 31, 2013	₱39,512,099	₱110,607,737	₱16,282,799	₱26,206,554	₱192,609,189

As at September 30, 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 ₱489.0 million and ₱494.0 million as at September 30, 2014 and December 31, 2013, respectively, and a fair value of ₱13,531.0 million as at August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by 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 amounting to ₱10,827.0 million paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others".

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

Rent income from investment properties amounted to ₱23,811.7 million and ₱20,533.0 million for the nine months ended September 30, 2014 and 2013, respectively. Direct operating expenses from investment properties which generate income amounted to ₱14,315.4 million and ₱12,519.0 million for the nine months ended September 30, 2014 and 2013, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱29,776.0 million and ₱18,279.0 million, and landbanking and commercial building constructions amounting to ₱7,454.0 million and ₱5,080.0 million as at September 30, 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 Center San Mateo, SM City Cabanatuan, SM City Angono, SM Tianjin and SM Zibo and the ongoing expansions of SM City Bacolod. 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 ₱7,222.0 million and ₱2,149.0 million as at September 30, 2014 and December 31, 2013, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱71,155.0 million and ₱82,058.0 million as at September 30, 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 ₱15,494.0 million and ₱28,857.0 million as at September 30, 2014 and December 31, 2013, respectively.

Interest capitalized to the construction of investment properties amounted to ₱53.2 million and ₱77.1 million as at September 30, 2014 and December 31, 2013, respectively. Capitalization rates used ranged from 5.08% to 5.99% and 5.83% to 7.20% as at September 30, 2014 and December 31, 2013, respectively.

The fair value of investment properties amounted to ₱582,743.9 million as at February 28, 2013 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at September 30, 2014 and December 31, 2013, the Company's management believes that there were no conditions present in 2014 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

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

14. Land and Development and Condominium Units for Sale

This account consists of the following:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Condominium units for sale (see Note 9)	**₱5,710,697**	₱6,213,523
Land and development:		
Current portion (see Note 9)	**27,243,997**	12,542,783
Noncurrent portion	**25,329,533**	25,666,930
	₱58,284,227	₱44,423,236

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

Condominium units for sale 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).

Borrowing costs capitalized by the Group to land and development account amounted to ₱607.0 million and ₱867.0 million as at September 30, 2014 and December 31, 2013, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.5% to 5.0% and 3.8% to 5.1% as at September 30, 2014 and December 31, 2013, respectively.

15. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Goodwill	**₱14,928,920**	₱14,221,912
Less accumulated impairment loss	**91,619**	91,619
Net book value	**14,837,301**	14,130,293
Trademarks and brand names	**6,124,762**	6,124,762
	₱20,962,063	₱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 (CGUs).

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.

Management assessed that no reasonably possible change in the pre-tax discount rates, future cash inflows and the fair values of asset and liabilities of the CGUs would cause the carrying value of goodwill in 2014 and 2013 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Receivables from real estate buyers (see Note 8)	**₱9,275,758**	₱10,636,503
Deposits and advance rentals	**7,401,889**	6,362,347
Deferred input VAT	**2,286,256**	1,554,256
Derivative assets (see Notes 24 and 25)	**2,629,277**	2,643,487
Defined benefit asset	**613,529**	615,982
Advances for project development (see Note 20)	**49,057**	3,607,169
Escrow fund (see Note 9)	**132,460**	556,206
Long-term notes (see Note 20)	**–**	218,124
Others	**3,793,805**	2,259,381
	₱26,182,031	₱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.
- Escrow fund amounting to ₱426.2 million as at December 31, 2013 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 (see Note 9). 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 2013 corporate restructuring.
- Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry a 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.

16. Bank Loans

This account consists of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱1,346,250**	₱2,219,750
Peso-denominated loans	**–**	6,550,000
Subsidiaries:		
Peso-denominated loans	**12,107,595**	18,818,509
	₱13,453,845	₱27,588,259

The U.S. dollar-denominated loans amounting to US$30.0 million and US$50.0 million with peso equivalent of ₱1,346.2 million and ₱2,219.8 million as at September 30, 2014 and December 31, 2013, respectively, bear interest ranging from 1.08% to 1.73% as at September 30, 2014 and December 31, 2013 (see Note 24).

The peso-denominated loans bear annual interest rates ranging from 2.75% to 4.40% and 1.06% to 6.75% as at September 30, 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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Trade	**₱40,425,687**	₱39,580,013
Accrued expenses	**4,927,402**	3,967,472
Nontrade	**5,792,554**	8,013,509
Payable arising from acquisition of land	**4,594,506**	4,838,686
Payable to government agencies	**2,855,137**	3,671,601
Accrued interest	**2,821,415**	1,784,520
Due to related parties (see Note 20)	**515,427**	2,091,305
Derivative liabilities (see Notes 24 and 25)	**1,091,963**	845,429
Gift checks redeemable and others	**2,870,362**	3,295,792
	₱65,894,453	₱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.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.
- 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.
- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.
- The terms and conditions relating to due to related parties are discussed in Note 20.
- Gift checks are redeemable at face value.

18. Long-term Debt

This account consists of:

	Availment date	Maturity date	Interest rate	Condition	Outstanding balance (In Thousands) September 30, 2014	December 31, 2013
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds						
US$350.0 million senior bonds	June 10, 2014	June 10, 2024	Fixed 4.88% ; semi-annual	Unsecured	**₱15,706,250**	₱–
US$500.0 million senior bonds	October 17, 2012	October 17, 2019	Fixed 4.25% ; semi-annual	Unsecured	**22,437,500**	22,197,500
US$400.0 million exchanged bonds	October 13, 2010	October 13, 2017	Fixed 5.50% ; semi-annual	Unsecured	**17,290,273**	17,023,867
US$500.0 million bonds	September 22, 2009	September 22, 2014	Fixed 6.00% ; semi-annual	Unsecured	**–**	16,832,631
Convertible bonds						
US$250.0 million convertible bonds	February 15, 2012	February 15, 2017	Fixed 1.625% ; semi-annual	Unsecured	**3,695,290**	3,732,919
US$300.0 million five-year term loans	June 19 - July 2, 2013	May 15, 2018	Floating six-month LIBOR + margin ; Fixed 3.98%-4.05%	Unsecured	**13,462,500**	13,318,500
Peso-denominated:						
Seven-year and ten-year retail bonds						
Series C Bonds	July 16, 2012	July 16, 2019	Fixed 6.00% ; semi-annual	Unsecured	**4,648,460**	5,023,460
Series D Bonds	July 16, 2012	July 16, 2022	Fixed 6.94% ; semi-annual	Unsecured	**7,683,810**	8,058,810
Series E Bonds	May 19, 2014	May 19, 2021	Fixed 5.296% ; semi-annual	Unsecured	**11,669,620**	–
Series F Bonds	May 19, 2014	May 19, 2024	Fixed 5.613% ; semi-annual	Unsecured	**3,330,380**	–
Five-year and Seven-year retail bonds						
Series A Bonds	June 25, 2009	June 26, 2014	Fixed 8.25% ; semi-annual	Unsecured	**–**	8,400,000
Series B Bonds	June 25, 2009	June 25, 2016	Fixed 9.10% ; semi-annual	Unsecured	**1,000,000**	1,000,000
Bank loans collateralized with time deposits	January 8, 2010	January 8, 2015	Floating three-month PDST-F + margin	Secured	**2,900,000**	3,000,000
Other peso bank loans	October 30, 2007 - June 30, 2014	October 30, 2014 - June 20, 2024	Fixed 4.03% - 5.4% and floating	Unsecured	**22,195,650**	9,350,000
Subsidiaries						
U.S. Dollar-denominated:						
Five-year term loans	May 6, 2011 - September 12, 2014	March 21, 2016 - April 14, 2019	Floating LIBOR + spread	Unsecured	**43,977,500**	34,184,150
Two-year, three-year and five-year bilateral loans	November 30, 2010 - August 5, 2013	November 30, 2015 - August 30, 2017	Floating LIBOR + spread	Unsecured	**4,487,500**	4,439,500

	Availment date	Maturity date	Interest rate	Condition	Outstanding balance (In Thousands) September 30, 2014	December 31, 2013
Other U.S. dollar loans	November 20, 2013	November 20, 2018	Floating LIBOR + spread	Unsecured	**1,121,875**	1,109,875
China Yuan Renminbi-denominated:						
Three-year loan	March 28, 2011	June 28, 2014	Floating	Secured	**–**	961,827
Five-year loan	August 26, 2009 - August 27, 2010	May 30, 2014 - August 4, 2015	Floating	Secured	–	2,235,771
Peso-denominated:						
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 - December 2, 2024	Fixed 5.10% - 5.74% ; quarterly	Unsecured	**18,279,354**	–
Fixed rate term loans	December 27, 2012 - July 31, 2014	December 23, 2015 - June 25, 2023	Fixed 4.00% - 5.94% ; Floating	Unsecured	**23,533,000**	19,390,000
Five-year and ten-year fixed and floating rate notes	June 19, 2012	June 20, 2017 - June 19, 2022	Fixed 6.22% - 6.81% ; Floating	Unsecured	**7,301,000**	7,375,500
Five-year, seven-year and ten-year fixed and floating rate notes	January 12, 2012	January 13, 2017 - January 12, 2022	Fixed 5.86% - 6.10% ; Floating	Unsecured	**4,272,800**	4,316,400
Five-year, seven-year and ten-year corporate notes	December 20, 2010 - June 13, 2011	December 20, 2015 - December 20, 2020	Floating	Unsecured	**6,596,000**	6,596,000
Ten-year corporate notes	April 14, 2009	April 14, 2019	Fixed 10.11%	Unsecured	**–**	1,100,000
Five-year floating rate notes	March 18, 2011 - June 17, 2011	March 19, 2016 - June 18, 2016	Floating	Unsecured	**4,850,000**	4,900,000
Fixed rate corporate notes	June 3- 28, 2013	June 3-28, 2020 - June 3, 2023	Fixed 5.57% - 5.88% ; Floating	Unsecured	**8,191,800**	8,200,000
Five-year bilateral loans	February 2, 2010 - October 24, 2011	February 2, 2015 - October 24, 2016	Fixed 5.00% ; Floating	Unsecured	**616,400**	617,600
Other bank loans	August 16, 2006 - June 29, 2010	September 10, 2014 - August 15, 2016	Fixed 5.00% - 9.75% ; Floating	Unsecured	**8,196,030**	8,593,460
					257,442,992	211,957,770
Less debt issue cost					**2,194,766**	1,801,733
					255,248,226	210,156,037
Less current portion					**11,662,815**	34,566,619
					₱243,585,411	₱175,589,418

Parent Company

US$400.0 million Exchanged Bonds
This issuance is comprised of US$186.3 million (₱8,041.6 million) additional bonds, and US$213.7 million (₱9,248.6.6 million) exchanged bonds from its pre-existing US dollar-denominated bonds. 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$250.0 million Convertible Bonds
The convertible bonds has a yield-to-maturity of 2.875% at inception and is due on its maturity at 106.67%. The bonds contain multiple embedded which was bifurcatedby SMIC at inception. See Note 25 for further discussion.

- Conversion option - 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 2014 and 2013, the bondholders of US$1.0 million (₱37.6 million) and US$150.8 million (₱5,778.9 million) opted to convert their holdings into 68,378 and 8,390,334 of SMIC's shares, respectively.

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

- Call option - gives 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 Term Loans
Portion of the US$300.0 million loan, amounting to US$180.0 million, is hedged against interest rate and foreign exchange risks using cross currency swap contract (see Note 25).

Bank Loans Collateralized with Time Deposits
These loans are collateralized by a portion of SMIC's time deposits amounting to US$480.0 million with peso equivalents of ₱21,540.0 million as at September 30, 2014 and US$475.0 million with peso equivalent of ₱21,087.6 million as at December 31, 2013.

Subsidiaries

US$300.0 million Five-Year Term Syndicated Loans
Portion of the loan amounting to US$150.0 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Note 25).

US$200.0 million Five-Year Term Syndicated Loans
This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Note 25).

China Yuan Renminbi-denominated Loans

- *China Yuan Renminbi-denominated Five-Year Loans*
  These loans has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. Partial drawdown totaling ¥61.0 million out of the ¥150.0 million 5-year loan was made in 2013 and already prepaid in June 2014.

- *China Yuan Renminbi-denominated ¥250.0 million Three-Year Loan*
  This loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5%. Only ¥187.0 million was drawn out of the ¥250.0 million loan facility on March 28, 2011. The Company prepaid portion of this loan amounting to ¥37.0 million in 2013 and ¥18.0 million in 2012. The remaining ¥132.0 loan was prepaid in March 2014.

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 13).

Repayment Schedule

The repayments of long-term debt are scheduled as follows:

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2014	₱12,262,080	(₱314,308)	₱11,947,772
2015	10,146,750	(284,956)	9,861,794
2016	25,145,900	(237,312)	24,908,588
2017	29,235,462	(289,565)	28,945,897
2018	46,611,325	(327,034)	46,284,291
2019	43,113,960	(277,153)	42,836,807
2020	27,055,514	(39,334)	27,016,180
2021	22,347,540	(154,672)	22,192,868
2022	13,767,170	(60,999)	13,706,171
2023	4,518,960	(4,630)	4,514,330
2024	23,238,331	(204,803)	23,033,528
	₱257,442,992	(₱2,194,766)	₱255,248,226

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at September 30, 2014 and December 31, 2013, the Group is in compliance with the terms of its loan covenants.

19. **Equity**

Capital Stock

a. Common stock

	Number of Shares	
	September 30, 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 period	**796,272,268**	622,974,620
Issuances	**68,378**	173,297,648
Balance at the end of the period	**796,340,646**	796,272,268
Subscribed:		
Balance at the beginning of the period	**796,272,268**	622,974,620
Issuances	**68,378**	173,297,648
Balance at the end of the period	**796,340,646**	796,272,268
Issued and subscribed	**796,340,646**	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, 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.

In 2013, 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 2014 and 2013, 68,378 and 8,390,334 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 ₱47.2 and ₱8,449.7 million in 2014 and 2013, respectively, are presented under “Additional paid-in capital” account in the consolidated balance sheets.

As at September 30, 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
January 23,2013 to June 7,2013 (various dates)		7,531,608	₱781
June 14, 2013	500,000,000		10
June 24 and July 5, 2013		120,243	781
July 18, 19, 26, 29 and 30, 2013		505,999	625
August 1, 2013		157,629,986	10
August 1, 2013		7,250,000	900
October 17, 2013		27,328	10
October 17-25 and November 1, 2013		232,484	625

As at September 31, 2014 and December 31, 2013, the total number of shareholders of the Parent Company was 1,242 and 1,249, respectively.

	Number of shares	
	September 30, 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 September 30, 2014 and December 31, 2013.

Cost of Parent Common Shares Held by Subsidiaries

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

The cost of common shares held by subsidiaries as at September 30, 2014 and December 31, 2013 amounting to ₱25.4 million pertains to 98,502 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.

Equity Adjustments from Common Control Transactions

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

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

Retained Earnings

a. Appropriated

On December 14, 2012, the Board of Directors (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 September 30, 2014 and December 31, 2013 the appropriated retained earnings is intended for the following projects:

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

b. Unappropriated

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 was paid on June 26, 2014.

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 ₱122,127.7 million and ₱108,146.6 million as at September 30, 2014 and December 31, 2013, 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, SM Lifestyle Entertainment, Inc. 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 September 30, 2014 and 2013 and December 31, 2013.

	Amount of Transactions		Outstanding Amount Asset (Liability)		Terms	Conditions
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)	**September 30, 2014 (Unaudited)**	December 31, 2013 (Audited)		
		(In Thousands)				
Banking Group						
Cash placement and investment in debt securities	**₱ 4,651,805**	₱–	**₱ 104,273,395**	₱99,621,590	Interest-bearing 0.6% to 4.92%	Unsecured; no impairment
Interest income	**1,713,087**	2,568,903	**535,238**	798,688	Interest-bearing 0.6% to 4.92%	Unsecured; no impairment
Loans	**(619,902)**	–	**21,570,098**	22,190,000	Interest-bearing 1.08% to 4.4%	Unsecured
Interest expense	**804,641**	1,044,049	**61,105**	41,054	Interest-bearing 1.08% to 4.4%	Unsecured
Rent income	**466,308**	440,715	**162,141**	3,060	Noninterest-bearing	Unsecured; no impairment
Dividend receivable	**713,967**	–	**713,967**	–	Noninterest-bearing	Unsecured; no impairment
Retail Entities under common Stockholders						
Rent income	**3,587,685**	3,418,846	**2,155,879**	2,611,290	Noninterest-bearing	Unsecured; no impairment
Management fee income	**181,462**	234,420	**181,647**	54,533	Noninterest-bearing	Unsecured; no impairment
Management fee expense	**812,015**	728,439	**174,491**	109,177	Noninterest-bearing	Unsecured; no impairment
Dividend receivable	**2,613**	–	**588,496**	719,861	Noninterest-bearing	Unsecured; no impairment
Service income	**369,076**	449,173	**66,460**	4,998	Noninterest-bearing	Unsecured; no impairment
Due from related parties	**(392,972)**	–	**941,104**	1,334,076	Noninterest-bearing	Unsecured
Due to related parties	**(1,575,878)**	–	**515,427**	2,091,305	Noninterest-bearing	Unsecured
Receivable for project development	**(3,231,672)**	–	–	3,231,672	Noninterest-bearing	Unsecured; no impairment

<u>Terms and Conditions of Transactions with Related Parties</u>
For the periods ended September 30, 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:

	September 30, 2014	September 30, 2013
	(In Thousands)	
Merchandise inventories at the beginning of the period	**₱13,232,308**	₱13,402,762
Purchases	**105,841,390**	95,219,621
Total goods available for sale	**119,073,698**	108,622,383
Less merchandise inventories at the end of the period	**14,880,884**	13,434,641
	₱104,192,814	₱95,187,742

22. Income tax

The deferred tax assets of ₱2,476.2 million and ₱2,172.8 million as at as at September 30, 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 ₱8,303.5 million and ₱6,970.5 million as at September 30, 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 September 30, 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 ₱12,076.9 million million and ₱10,527.6 million as at September 30, 2014 and December 31, 2013, respectively.

The future minimum lease receivables under the noncancellable operating leases of the Group as at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
	(In Millions)	
Within one year	**₱2,920**	₱2,068
After one year but not more than five years	**11,448**	7,330
After five years	**3,111**	3,159
Balance at end of period	**₱17,479**	₱12,557

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 future minimum lease payables under the noncancellable operating leases of the Group as at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
	(In Millions)	
Within one year	**₱1,640**	₱735
After one year but not more than five years	**7,426**	3,261
After five years	**57,573**	27,330
Balance at end of period	**₱66,639**	₱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.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable debt.

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 September 30, 2014 and December 31, 2013, after taking into account the effect of the swaps, approximately 63.1% 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 ₱95,203.2 million (US$2,121.5 million) and ₱110,012.6 million (US$2,451.5 million), respectively, as at September 30, 2014, and ₱84,970.2 million (US$1,914.0 million) and ₱100,887.5 million(US$2,272.5 million), respectively, as at December 31, 2013.

As at September 30, 2014 and December 31, 2013, approximately 45.6% 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 ₱44.88 to US$1.00, and ₱44.40 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of September 30, 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 ₱56,472.2 million, ₱9,031.5 million and ₱1,306.0 million, respectively, as at September 30, 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 September 30, 2014 and December 31, 2013 based on the contractual undiscounted payments:

	September 30, 2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱13,453,845**	**₱–**	**₱–**	**₱13,453,845**
Accounts payable and other current liabilities*	**–**	**61,947,353**	**–**	**–**	**61,947,353**
Long-term debt (including current portion)	**–**	**16,132,351**	**142,570,491**	**150,280,447**	**308,983,289**
Derivative liabilities:**					
Interest rate swaps	**–**	**–**	**110,585**	**–**	**110,585**
Multiple derivatives on convertible bonds	**–**	**1,091,963**	**–**	**–**	**1,091,963**
Dividends payable	**–**	**207,255**	**–**	**–**	**207,255**
Tenants' deposits	**–**	**180,807**	**11,746,705**	**162,390**	**12,089,902**
	₱–	**₱93,013,574**	**₱154,427,781**	**₱150,442,837**	**₱397,884,192**

	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*	–	63,571,297	–	–	63,571,297
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	–	62,317	10,274,136	201,543	10,537,996
	₱–	₱130,573,877	₱148,526,021	₱66,417,576	₱345,517,474

* *Excluding payable to government agencies of ₱2,855.1 million and ₱3,671.6 million as at September 30, 2014 and December 31, 2013, respectively, the amounts of which are not considered as financial liabilities.*
** *Based on estimated future cash flows.*

<u>Credit Risk</u>
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 the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at September 30, 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 September 30, 2014 and December 31, 2013, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	September 30, 2014		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱55,662,902**	**₱–**	**₱55,662,902**
Time deposits and short-term investments (including noncurrent portion)	**54,355,205**	**–**	**54,355,205**
Investments held for trading - Bonds	**306,499**	**–**	**306,499**
AFS investments	**21,740,761**	**3,918**	**21,744,679**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**30,846,953**	**4,983,354**	**35,830,307**
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)	**10,096,555**	**–**	**10,096,555**
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	**2,629,277**	**–**	**2,629,277**
	₱175,638,152	**₱4,987,272**	**₱180,625,424**

	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 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 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 interest-bearing debt to total capital. 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 lower than 50%.

As at September 30, 2014 and December 31, 2013, the Group's gearing ratio were as follows:

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Bank loans	**₱13,453,845**	₱27,588,259
Long-term debt	**255,248,226**	210,156,037
Less:		
Cash and cash equivalents (excluding cash on hand)	**(55,662,902)**	(48,999,592)
Time deposits and short-term investments	**(54,355,205)**	(55,993,600)
AFS investments (bonds and corporate notes)	**(5,702,917)**	(5,539,822)
Investments held for trading-bonds	**(306,499)**	(459,754)
Long-term notes included under "Other noncurrent assets" account	**–**	(218,124)
Total net interest-bearing debt (a)	**152,674,548**	126,533,404
Total equity attributable to owners of the Parent	**232,386,182**	219,433,817
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱385,060,730**	₱345,967,221
Gearing ratio (a/b)	**40%**	37%

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Bank loans	**₱13,453,845**	₱27,588,259
Long-term debt	**255,248,226**	210,156,037
Total interest-bearing debt (a)	**268,702,071**	237,744,296
Total equity attributable to owners of the Parent	**232,386,182**	219,433,817
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱501,088,253**	₱457,178,113
Gearing ratio (a/b)	**54%**	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 September 30, 2014 and December 31, 2013:

	September 30, 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	**₱306,499**	**₱306,499**	**₱306,499**	**₱–**	**₱–**
Derivative assets	**2,629,277**	**2,629,277**	**–**	**2,629,277**	**–**
	2,935,776	**2,935,776**	**306,499**	**2,629,277**	**–**
AFS investments:					
Shares of stock	**16,029,342**	**16,029,342**	**16,029,342**	**–**	**–**
Bonds and corporate notes	**5,702,917**	**5,702,917**	**5,702,917**	**–**	**–**
Club shares	**12,420**	**12,420**	**12,420**	**–**	**–**
	21,744,679	**21,744,679**	**21,744,679**	**–**	**–**
	24,680,455	**24,680,455**	**22,051,178**	**2,629,277**	**–**
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Cash and cash equivalents	**56,472,229**	**56,472,229**	**–**	**–**	**56,472,229**
Time deposits and short-term investments (including noncurrent portion)	**54,355,205**	**57,836,068**	**–**	**–**	**57,836,068**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**39,472,796**	**39,630,840**	**–**	**–**	**39,630,840**
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets)	**10,096,555**	**10,096,555**	**–**	**–**	**10,096,555**
	160,396,785	**164,035,692**	**–**	**–**	**164,035,692**
	₱185,077,240	**₱188,716,147**	**₱22,051,178**	**₱2,629,277**	**₱164,035,692**
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	**₱1,202,548**	**₱1,202,548**	**₱–**	**₱110,585**	**₱1,091,963**
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Bank loans	**13,453,845**	**13,453,845**	**–**	**–**	**13,453,845**
Accounts payable and other current liabilities*	**61,947,353**	**61,947,353**	**–**	**–**	**61,947,353**
Long-term debt (including current portion and net of unamortized debt issue cost)	**255,248,226**	**266,236,315**	**–**	**–**	**266,236,315**
Dividends payable	**207,255**	**207,255**	**–**	**–**	**207,255**
Tenants’ deposits and others	**20,976,971**	**14,663,581**	**–**	**–**	**14,663,581**
	351,833,649	**356,508,348**	**–**	**–**	**356,508,348**
	₱353,036,196	**₱357,710,896**	**₱–**	**₱110,585**	**₱357,600,311**

**Excluding payable to government agencies of ₱2,855.1 million at September 30, 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	–	–
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	36,390,140	–	–	36,390,140
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	159,063,522	–	–	159,063,522
	₱177,606,765	₱179,256,863	₱17,549,854	₱2,643,487	₱159,063,522
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL:					
Derivative liabilities	₱1,005,403	₱1,005,403	₱–	₱159,974	₱845,429
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*	63,571,297	63,571,297	–	–	63,571,297
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
	319,493,006	329,192,996	27,588,259	–	301,604,737
	₱320,498,409	₱330,198,399	₱27,588,259	₱159,974	₱302,450,166

**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 nine-month period ended September 30, 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.

<u>Derivative Financial Instruments</u>

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Parent (see Note 15):		
Cross-currency swaps	**₱928,374**	₱864,677
SM Prime (see Note 15):		
Cross-currency swaps	**1,646,676**	1,668,400
Interest rate swaps	**54,227**	110,410
	₱2,629,277	₱2,643,487

Derivative Liabilities

	September 30, 2014	December 31, 2013
	(In Thousands)	
Parent (see Note 17):		
Options arising from convertible bonds	**₱1,091,963**	₱845,429
SM Prime (see Note 24):		
Interest rate swaps	**110,585**	159,974
	1,202,548	1,005,403
Less current portion	**1,091,963**	845,429
Noncurrent portion	**₱110,585**	₱159,974

Derivative Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, 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, April 16, and September 19, 2013.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity
	(In Thousands)			
	(In US$)	*(In PhP)*		
Parent -				
Unsecured loans	180,000	8,077,500	6-month US LIBOR + 1.70%	May 15, 2018
SM Prime:				
Unsecured loan	200,000	8,975,000	6-month US LIBOR + 1.70%	
Unsecured loan	150,000	6,731,250	6-month US LIBOR + 1.70%	January 29 - March 23, 2018

The table below provides the details of the Group’s outstanding cross-currency swaps as at September 30, 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
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

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity
	(In Thousands)					
	(In US$)	*(In PhP)*				
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 25, 2018
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 25, 2018
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 1.70%	3.90%	41.10	March 25, 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.

Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱1,709.7 million gain as at September 30, 2014 was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statements of comprehensive income for the period ended September 30, 2014. Foreign currency translation loss arising from the hedged loan amounting to ₱1,493.4 million was recognized in the consolidated statements of comprehensive income for the period ended September 30, 2014. A foreign exchange gain equivalent to the same amount was recycled from equity to the consolidated statements of comprehensive income during the same period.

Other Derivative Instruments Not Designated as Hedges

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

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

	September 30, 2014		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
		(In thousands)	
Outstanding notional amount	**₱960,000**	**₱–**	**₱–**
Receive-fixed rate	**7.36%**		
Pay-floating rate	**3MPDST-F+margin%**		

	December 31, 2013		
	<1 Year	>1-<2 Years	>2-<5 Years
		(In thousands)	
Floating-Fixed			
Outstanding notional amount	$145,000	$145,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	2.91%–3.28%	2.91%–3.28%	
Outstanding notional amount	$30,000	$30,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.53%	3.53%	
Outstanding notional amount	$20,000	$–	$–
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	3.18%		
Outstanding notional amount	₱174,720	₱174,720	$–
Receive-floating rate	3MPDST-F	3MPDST-F	
Pay-fixed rate	3.65%	3.65%	
Outstanding notional amount	₱174,720	₱174,720	$–
Receive-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	
Pay-fixed rate	4.95%	4.95%	
Fixed-Floating			
Outstanding notional amount	₱960,000	₱950,000	$–
Receive-fixed rate	5.44%	5.44%	
Pay-floating rate	3MPDST-F	3MPDST-F	
Outstanding notional amount	₱960,000	₱950,000	$–
Receive-fixed rate	7.36%	7.36%	
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	

Derivative Liabilities

US$250.0 million Convertible Bonds
As at September 30, 2014 and December 31, 2013, the negative fair values of the multiple embedded derivatives, which is shown as a current liability in the parent company balance sheets, amounted to ₱1,092.0 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 ₱241.2 million gain and ₱1,321.0 million loss which is recognized under loss on fair value changes on derivatives - net" account and ₱16.0 million loss which is recognized under "Foreign exchange gain and others" account in the consolidated statements of income. Also, as a result of the exercise of the conversion option at various dates in 2014 and 2013, ₱10.7 million and ₱2,962.9 million of the option value was transferred from derivative liabilities to "Additional paid-in capital" (APIC) account, respectively.

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 September 30, 2014 and December 31, 2013, these interest rate swaps have negative fair values of ₱4.0 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 September 30, 2014 and December 31, 2013, the floating to fixed interest rate swaps have aggregate negative fair values of ₱73.0 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 September 30, 2014 and December 31, 2013, the floating to fixed interest rate swap have negative fair values of ₱5.0 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 September 30, 2014 and December 31, 2013, the floating to fixed interest rate swap have negative fair values of ₱28.0 million ₱36.0 million, respectively.

- 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. As at September 30, 2014 and December 31, 2013, these interest rate swaps have positive fair values of ₱54.0 million and ₱110.0 million, respectively.

In 2009, SM Prime entered into US$ interest rate swap agreements with an 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 Currency Forwards and Swaps. In 2014 and 2013, SM Prime entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱11.0 million gain in 2014 and ₱14.0 million in 2013.

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Derivative assets (see Note 15)	**2,629,277**	₱2,643,487
Derivative liabilities (see Notes 17 and 24)	**(1,202,548)**	(1,005,403)
Balance at end of period	**₱1,426,729**	₱1,638,084

26. **EPS Computation**

	September 30, 2014	September 30, 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)	**₱18,156,710**	₱18,549,619
Weighted Average Number of Common Shares Outstanding		
Weighted average number of common shares outstanding for the period (b)	**796,317**	787,268
Basic EPS (a/b)	**₱22.80**	₱23.56

27. **Reclassification**

The comparative information in the consolidated financial statements for the period ended September 30, 2013 has been reclassified to conform to the presentation of the financial statements for the period ended September 30, 2014 and December 31, 2013.

PART I FINANCIAL INFORMATION

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

Results of Operations
For the Nine Months Ended September 30, 2014 and 2013
(Amounts in Billion Pesos)

	Nine Months Ended		
	09 / 30 / 2014	**09 / 30 / 2013**	**% Change**
Revenues	**P 193.2**	**P 179.4**	**7.7%**
Cost and Expenses	155.8	143.1	8.9%
Income from Operations	**P 37.4**	**P 36.3**	**3.0%**
Other Income (Charges)	(6.1)	(5.1)	19.9%
Provision for Income Tax	5.6	4.8	17.2%
Non-controlling Interests	7.5	7.8	-4.6%
Net Income Attributable to Owners of the Parent	**P 18.2**	**P 18.6**	**-2.1%**

SM Investments Corporation and Subsidiaries (*the Group*) reported a *Net Income* of P18.2 billion and *Revenues* of P193.2 billion in 2014. This represents a 2.1% decline in *Net Income* due to exceptional trading gains in the Group's banking businesses and 7.7% growth in *Revenues*.

Income from Operations increased by 3.0% to P37.4 billion from P36.3 billion in 2013. *Operating Margin* and *Net Margin* in 2014 is at 19.3% and 9.4%, respectively.

Merchandise Sales grew by 9.2% to P136.4 billion from P124.9 billion in 2013 due partly to the Retail Group's same store sales and also to the 14 stores which opened in 2014.

The *Non-Food* and *Food Group* comprised 38% and 62%, respectively, of merchandise sales in 2014 and 40% and 60%, respectively, of merchandise sales in 2013.

As of September 30, 2014, *SM Retail had* 255 stores nationwide, namely: 49 *SM Stores*, 40 *SM Supermarkets*, 102 *SaveMore* stores, 41 *SM Hypermarkets* and 23 *WalterMart* stores.

Real Estate Sales increased by 1.4% to P16.3 billion from P16.1 billion in 2013. The slight increase is the result of the four projects launched in 2011 equivalent to around 8,700 units as compared to only two projects launched in 2012 equivalent to only around 4,600 units. On average, it takes about two years before revenues are recognized in the books because of percentage of completion accounting. The actual construction of projects usually starts within one year from launch date.

Real Estate Gross Margin improved significantly from 39.0% in 2013 to 43.1% in 2014. This is attributable to efficient management and the reigning-in of construction costs.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 16.0% to P23.8 billion from P20.5 billion in 2013. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013 and 2014, namely, *SM Aura Premier*, *SM City BF Parañaque* and *SM City Cauayan*, as well as the expansion of shopping spaces in *SM Megamall*. The expanded mall gross floor area is now 6.3 million square meters, an increase of 0.1 million square meters from yearend 2013. Excluding the new malls and expansions, same-store rental growth is at 7%.

As of September 30, 2014, *SM Prime* had 49 malls in the Philippines and 5 malls in China.

Cinema Ticket Sales and *Amusement Revenues* increased by 12.6% to P4.3 billion from P3.9 billion in 2013 due to the opening of additional digital cinemas in the new/expanded malls and the showing of international and local blockbuster movies. The opening of *Sky Ranch* in Tagaytay last March 2013, the reopening of the ice skating rink in *SM Megamall* last January 2014, and the higher sponsorship income and merchandise sales from snackbars also contributed to the increase.

*Equity in Net Earnings of Associates and Joint Venture*s decreased by 11.5% to P9.7 billion from P11.0 billion in 2013. This is attributable to *BDO's* exceptional trading gains in early 2013. *BDO*'s 2014 third quarter net income grew 41% compared to the same period last year.

Dividend, Management Fees and Other Revenues decreased by 14.6% to P2.6 billion in 2014 from P3.1 billion 2013 due partly from the gain on sale of certain Available-for-sale investments in 2013.

Operating Expenses increased by 11.0% to P42.4 billion from P38.1 billion in 2013 due mainly to additional operating expenses associated with the construction of new, and/or, expansion of malls, new retail stores, store renovations and current real estate projects.

Other Charges (net) increased by 19.9% to P6.1 billion from P5.1 billion in 2013. *Interest Expense* increased by 4.9% to P8.5 billion from P8.1 billion in 2013. *Interest Income* decreased by 19.0% to P2.3 billion from P2.8 billion in 2013 due to lower average balance of temporary investments. *Loss on Fair Value Changes on Derivatives* decreased by 46.7% to P0.2 billion from P0.4 billion in 2013. This fair value change pertains mainly to the US$250.0 million convertible bonds of SMIC. *Foreign Exchange Gain and Others* increased by 272.1% to P236.2 million from P63.5 million in 2013. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP43.54 : USD1.00 in 2013 to PHP44.875 : USD1.00 in 2014 coupled with USD net asset position.

Provision for Income Tax increased by 17.2% to P5.6 billion from P4.8 billion in 2013 due mainly to higher taxable income as well as expiration of certain income tax holiday incentives on certain residential projects of *SM Prime* in 2014. The effective income tax rate is 18.0% in 2014 and 15.4% in 2013.

Non-controlling Interests remained relatively steady at 29.1% and 29.7% of total *Net Income* in 2014 and 2013, respectively.

Financial Position
As of September 30, 2014 and December 31, 2013
(Amounts in Billion Pesos)

	09 / 30 / 2014 (Unaudited)	**12 / 31 / 2013 (Audited)**	**% Change**
Current assets	P 166.6	P 162.9	2.3%
Noncurrent assets	519.4	470.1	10.5%
Total assets	**P 686.0**	**P 633.0**	**8.4%**
Current liabilities	P 92.4	P 132.1	-30.0%
Noncurrent Liabilities	273.1	200.7	36.1%
Total Liabilities	**365.5**	**332.8**	**9.9%**
Equity	**320.5**	**300.2**	**6.7%**
Total Liabilities and Equity	**P 686.0**	**P 633.0**	**8.4%**

Total *Assets* increased by 8.4% to P686.0 billion from P633.0 billion in 2013. Likewise, total *Liabilities* increased by 9.9% to P365.5 billion from P332.8 billion in 2013.

Current Assets

Current Assets increased by 2.3% to P166.6 billion from P162.9 billion in 2013.

Cash and Cash Equivalents increased by 12.5% to P56.5 billion from P50.2 billion in 2013 resulting mainly from proceeds of loan availments in 2014 partly offset by cash disbursements for working capital requirements and capital expenditures.

Time Deposits and Short-term Investments decreased by 68.8% to P9.0 billion from P28.9 billion in 2013 due to maturity of certain Short-term deposits, a portion of which was used to pay off maturing bonds and/or reinvested in Long-term time deposits.

Investments Held for Trading and Sale increased by 77.3% to P2.0 billion from P1.1 billion in 2013 due mainly to reclassification from non-current to current of maturing available-for-sale (AFS) investments.

Receivables increased by 13.4% to P30.2 billion from P26.6 billion in 2013 due mainly to the P3.9 billion increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishment and therefore, increased number of units sold and P0.5 billion *Dividends Receivable* from associates and affiliates partly offset by collections from tenants and affiliates.

Merchandise Inventories increased by 12.5% to P14.9 billion from P13.2 billion in 2013. The increase is mainly attributable to the Food Group.

Other Current Assets increased by 26.2% to P54.0 billion from P42.8 billion in 2013. Bulk of this increase represents the reclassification of noncurrent *Land and Development* costs of certain residential projects to current.

Noncurrent Assets

Noncurrent Assets increased by 10.5% to P519.4 billion from P470.1 billion in 2013.

AFS Investments increased by 21.6% to P20.1 billion from P16.5 billion in 2013 due mainly to increase in market value of certain AFS investments.

Investments in Shares of Stock of Associates and Joint Ventures increased by 5.2% to P146.2 billion from P139.0 billion in 2013 mainly due to the 9-month *Equity in Net Earnings of Associates and Joint Ventures*, net of *Dividend Income* received from these associates.

Time Deposits increased by 67.4% to P45.3 billion from P27.1 billion in 2013 as a result of the reinvestment of matured deposits from Short-term to Long-term.

Property and Equipment increased by 1.3% to P18.6 billion from P18.3 billion in 2013.

Investment Properties increased by 11.3% to P214.3 billion from P192.6 billion in 2013. The increase mainly represents mall-related investments in land and buildings – construction of new buildings, renovations and expansions of certain existing malls, and, landbanking.

Land and Development decreased by 1.3% to P25.3 billion from P25.7 billion in 2013 due mainly to reclassification of certain *Land and Development* project costs from noncurrent to current.

Deferred Tax Assets increased by 14.0% to P2.5 billion from P2.2 billion in 2013 due to higher NOLCO from *SM Prime.*

Other Noncurrent Assets decreased by 8.0% to P26.2 billion from P28.4 billion in 2013. The decrease mainly represents the reclassification of deposits for land acquisitions to current portion of Land and Development.

Current Liabilities

Current Liabilities decreased by 30.0% to P92.4 billion from P132.1 billion in 2013 due mainly to payments in 2014 which resulted in a decrease in growth of the following accounts:

Bank Loans decreased by 51.2% to P13.5 billion from P27.6 billion in 2013 due mainly to net payments of P14.1 billion.

Accounts Payable and Other Current Liabilities decreased by 3.2% to P65.9 billion from P68.1 billion in 2013 mainly representing *Non-trade Payables and Due to Affiliates.*

Current portion of long-term debt decreased by 66.3% to P11.7 billion from P34.6 billion in 2013.

Income tax payable decreased by 25.4% to P1.2 billion from P1.6 billion in 2013.

Dividends payable remained at P0.2 billion in 2014 and 2013.

Noncurrent Liabilities

Noncurrent Liabilities increased by 36.1% to P273.1 billion from P200.7 billion in 2013.

Long-term Debt - Net of Current Portion increased by 38.7% to P243.6 billion from P175.6 billion to in 2013 due mainly to SMIC and SMPHI's new bond issuances in 2014 to fund capital expenditures and for working capital requirements.

Tenants' Deposits and Others increased by 17.6% to P21.1 billion from P18.0 billion in 2013. The increase is coming mainly from *SM Prime* and the *Net Group* relating to their leasable spaces.

Deferred Tax Liabilities increased by 19.1% to P8.3 billion from P7.0 billion in 2013. This increase mainly represents higher *Unreliazed Gross Profit on Sale of Real Estate* and *Fair Value Gain on Investment Properties*.

Noncurrent Derivative Liability decreased by 30.9% to P0.1 billion from P0.2 billion in 2013 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

<u>*Equity*</u>

Total *Equity* increased by 6.7% to P320.5 billion from P300.2 billion in 2013.

Equity Attributable to Owners of the Parent increased by 5.9% P232.4 billion from P219.4 billion in 2013. This increase resulted mainly from (a) Cumulative Translation Adjustment relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso, which decreased by 10.0% to P1.1 billion from P1.2 billion in 2013, (b) *Net Unrealized Gain on AFS Investments* which increased by 32.4% to P9.7 billion from P7.3 billion in 2013 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, and, (c) *Equity Adjustments from Common Control Transactions* which decreased by P0.7 billion relative to the adjustment in valuation for the acquisition of a subsidiary.

Non-controlling Interests increased by 9.0% to P88.1 billion from P80.8 billion in 2013 due mainly to the increase in 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 the Group for the nine months ended September 30, 2014 and 2013 and for the year ended December 31, 2013:

	09 / 30 / 2014 (Nine months)	**12 / 31 / 2013 (One Year)**
Current Ratio	1.8	1.2
Asset to Equity Ratio	2.1	2.1
Debt-equity Ratios:		
On Gross Basis	54: 46	52 : 48
On Net Basis	40: 60	37 : 63

	09 / 30 / 2014 (Nine months)	**09 / 30 / 2013 (Nine months)**
Revenue Growth	7.7%	13.5%
Net Income to Revenues	9.4%	10.3%
Net Income Growth	-2.1%	15.0%
Return on Equity	12.0%	13.5%
EBITDA *(In Billions of Pesos)*	P45.6B	P43.4B
Interest Coverage Ratio	6.2x	4.9x

Current Ratio improved to 1.8 from 1.2 in 2013 due mainly to increase in *Current Assets* of 2.3% coupled with a decrease in *Current Liabilities* of 30.0%.

Asset to equity ratio remained at 2.1 in both periods.

Gross debt-equity ratio increased to 54:46 from 52:48 in 2013 due to higher increase in gross debts of 13.0% from P237.7 billion to P268.7 billion in 2014 compared to a 5.9% increase in equity base from P219.4 billion to P232.4 billion in 2014.

Net debt-equity ratio increased to 40:60 from 37:63 in 2013 due to higher increase in net debts of 20.7% from P126.5 billion to P152.7 billion in 2014.

Revenue growth decreased to 7.7% in 2014 due mainly to the 2013 exceptional trading gains of the Group's bank associates. On an underlying basis, revenue growth is 9.4%, mainly coming from merchandise sales, rent, and, equity in earnings of the Group's bank associates.

Net income declined by 2.1% from a growth of 15.0% in 2013 due mainly to the 2013 exceptional trading gains of the Group's bank associates. On an underlying basis, net income growth is at 13.7%.

Return on equity decreased to 12.0% from 13.5% in 2013.

EBITDA increased by 5.0% to P45.6 billion from P43.4 billion in 2013. On an underlying basis, EBITDA increased by P5.4 billion or 13.5%.

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

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

Expansion Plans / Prospects for the Future

Malls

In the last quarter of 2014, SM Prime will be opening 2 new malls located in Angono in the Philippines and Zibo in China. By yearend, SM Prime will have 50 malls in the Philippines and 6 malls in China with an estimated combined gross floor area of 7.5 million square meters.

Residential

In August 2014, SM Prime launched Air Residences with 3,642 units. For the rest of the year, SM Prime will be launching another project and expanding 2 of its existing towers in Metro Manila and Tagaytay equivalent to about 5,666 additional units. SM Prime currently has 22 residential projects in the market, 21 of which are in Metro Manila and one 1 in Tagaytay.

Commercial

More medium rise buildings designed for office and the business process outsourcing sector will rise in the Mall of Asia complex in Pasay City as SM Prime hastens project development as a result of increasing demand.

At the moment, SM Prime has 2 operational E-coms within the 67-hectare complex. SM Prime expects to lease out fully the near-complete FiveE-com by the end of the year. ThreeE-com, which broke ground in September 2014, will be completed by 2017.

Hotels and Convention Centers

Park Inn by Radisson in Clark, Pampanga and Conrad Hotel Manila in the Mall of Asia Complex, are expected to open in the last quarter of 2015.

Retail

The food retail business is on an aggressive expansion mode to penetrate the informal sector and both urban and rural communities. In the department store business, the SM Store will continue to introduce fresh concepts and expand its stores nationwide through the expansion of SM malls in the provinces. For the rest of the year, the Retail Group will be opening 1 SM Store, 1 SM Hypermarket and 12 SaveMore stores.

The Group's capital 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 September 30, 2014
(Amounts in Thousands)

Receivable from Tenants		
Third-party tenants	₱	3,516,403
Related-party tenants		2,132,092
Receivables from Real Estate Buyers & others		
- net of non-current portion		22,406,431
Total	₱	28,054,926

Aging:

Neither past due nor impaired	₱	23,967,394
31-90 days		867,231
91-120 days		519,495
Over 120 days		2,255,764
Impaired		445,042
Total	₱	28,054,926

PART II - SIGNATURE

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

Registrant: **SM INVESTMENTS CORPORATION**

Date: 11-13-14

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