Draft dated 17February 2014

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THE SAME BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY.

SM INVESTMENTS CORPORATION

(A corporation duly organized and existing under Philippine laws)

₱10,000,000,000 Fixed Rate
Series E Bonds due [•2021]
Series F Bonds due [•2024]

Offer Price of 100% of Face Value

Interest Rate of
[•]% p.a. for Series E Bonds
[•]% p.a. for Series F Bonds

SM Investments Corporation (the "Issuer" or "SMIC" or the "Company) is offering Fixed Rate Bonds (the "Bonds") in the aggregate principal amount of ₱10,000,000,000.00 comprised of 7-year or Series E Bonds and 10-year or Series F Bonds due on **[•2021]** and **[•2024]** respectively, with an Over-subscription Option of up to ₱5,000,000,000.00 (the "Offer"). Assuming the Over-subscription Option is fully exercised, up to ₱15,000,000,000.00 in aggregate principal amount of the Bonds will be issued by the Company pursuant to the Offer on **[•]** (the "Issue Date").

The Series E Bonds shall have a term of seven (7) years from the Issue Date, with a fixed interest rate equivalent to **[•]**% p.a. The Series F Bonds shall have a term of ten (10) years from the Issue Date, with a fixed interest rate equivalent to **[•]**% p.a. Interest on the Series E Bonds and the Series F Bonds shall be payable semi-annually in arrears starting on **[•]** of each year for each Interest Payment Date at which the Series E Bonds and the Series F Bonds are outstanding, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. The Maturity Dates of the Series E Bonds and the Series F Bonds shall be on **[•]** and **[•]**, respectively, which will also be the last Interest Payment Dates for each respective series of the Bonds.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

BDO Capital & Investment Corporation

Issue Manager & Sole Bookrunner

Prospectus dated [●]

Draft dated 17 February 2014

Joint Lead Underwriters

BDO CAPITAL & INVESTMENT CORPORATION

[•]

[•]

The Bonds will be repaid at 100% of Face Value on the respective Maturity Dates of the Series E and Series F Bonds, unless otherwise redeemed or purchased prior to the relevant Maturity Date, or as otherwise set out in "Description of the Bonds – Redemption and Purchase" and "Description of the Bonds – Payment in the Event of Default" sections on pages **[•]** and **[•]**, respectively, of this Prospectus.

The Bonds have been rated PRS **[•]** by Philippine Rating Services Corporation ("PhilRatings"). A rating of PRS **[•]** is assigned to long-term debt securities with the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and repayment of principal is secured. A rating of PRS **[•]** is the highest credit rating on PhilRatings' long-term credit rating scale. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Bonds shall be offered to the public at Face Value through the Underwriters named herein with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Register of Bondholders, and, as soon as reasonably practicable, listed in the Philippine Dealing & Exchange Corp. ("PDEx"). The Bonds shall be issued in denominations of ₱20,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

SMIC expects to raise gross proceeds amounting to at least ₱10,000,000,000.00, up to a maximum of ₱15,000,000,000.00 assuming full exercise of the Over-subscription Option. Without such Over-subscription Option being exercised, the net proceeds are estimated to be at least ₱9,918.36 million after deducting fees, commissions and expenses relating to the issuance of the Bonds. Assuming the Over-subscription Option is fully exercised, total net proceeds of the Offer is expected to amount to approximately ₱14,883.36 million. Proceeds of the Offer shall be used for **[•]** (see "Use of Proceeds"). The Joint Lead Underwriters shall receive a fee of 0.20% on the total face value of the Bonds issued. The fee is inclusive of the fees to be ceded to Participating Underwriters.

Upon issuance, the Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of SMIC and shall at all times rank pari passu and rateably without any preference or priority amongst themselves and at least pari passu with all other present and future unsubordinated and unsecured obligations of SMIC, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to all of SMIC's secured debts, if any, to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

On **[**17 February 2014**]**, SMIC filed a Registration Statement with the Philippine Securities and Exchange Commission ("SEC"), in connection with the offer and sale to the public of debt securities with an aggregate principal amount of up to ₱15,000,000,000 constituting the Offer (inclusive of the Over-subscription Option). The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Offer.

The Company is allowed under Philippine laws to declare dividends, subject to certain requirements. The Company's Board of Directors is authorized to declare dividends only from its unrestricted retained earnings, except with respect to **₱[•]**, representing accumulated equity in net earnings of subsidiaries. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the Company's outstanding capital stock. The Company's Board of Directors may not declare dividends which will impair its capital.

SMIC confirms that this Prospectus contains all material information relating to the Company, its affiliates and the Bonds which are in the context of the issue and offering of the Bonds (including all material information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Prospectus misleading in any material respect. SMIC confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. SMIC, however, has not independently verified any such publicly available information, data or analysis.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors inherent to the Company (detailed in "Risk Factors" on pages **[•]** to **[•]** of this Prospectus), in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds.

This Prospectus contains certain "forward-looking statements". These forward-looking statements can generally be identified by use of statements that include words or phrases such as SMIC or its management "believes", "expects", "anticipates", "intends", "plans", "projects", "foresees", and other words or phrases of similar import. Similarly, statements that describe SMIC's objectives, plans, and goals are also forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Nothing in this Prospectus is or should be relied upon as a promise or representation as to the future. The forward-looking statements included herein are made only as of the date of this Prospectus, and SMIC undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offer shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Underwriters do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each prospective purchaser of the Bonds receiving a copy of this Prospectus acknowledges that he has not relied on the Underwriters in his investigation of the accuracy of such information or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds, among others. Investing in the Bonds involves certain risks. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section entitled "Risk Factors".

No dealer, salesman or other person has been authorized by SMIC and the Underwriters to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by SMIC or the Underwriters.

SMIC is organized under the laws of the Philippines. Its principal office address is at the 10th floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300, Philippines, with telephone number +632 857 0100 and fax number +632 857 0132.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

SM Investments Corporation

By:

HARLEY T. SY

President & Chief Executive Officer

SUBSCRIBED AND SWORN to before me this ____________ day of ____________ 2014, affiant exhibiting to me his Philippine Passport No. ____________ issued on ____________ at ____________.

Doc. No. _______

Page No. _______

Book No. _______

Series of 2014.

TABLE OF CONTENTS

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

Aggregate Consolidated Indebtedness	the total of bank loans, current and noncurrent portions of long-term debt, net of pledged time deposits
Alpha Star	Alpha Star Holdings Limited
Anchor Tenant	the primary tenants in any given Mall
Articles of Incorporation	the Articles of Incorporation of SMIC as amended to date
BDO or Bank	BDO Unibank, Inc.
BDO Capital	BDO Capital & Investment Corporation, an investment house and a wholly-owned subsidiary of BDO
BIR	the Bureau of Internal Revenue of the Philippines
Board or Board of Directors	the Board of Directors of SMIC
Bondholder	a person or entity whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders
Bonds	refers collectively to the Series E and Series F Bonds in the aggregate principal amount of ₱10,000,000,000, and an Over-subscription Option of up to ₱5,000,000,000, to be issued by SMIC and which will mature on **[**●2021**]** and **[**●2024**]**, respectively
BSP	Bangko Sentral ng Pilipinas, the Philippine Central Bank
Business Day	means a day, other than Saturday, Sunday and public holidays, on which facilities of the Philippine banking system are open and available for clearing and banks are generally open for the transaction of business in the cities of Pasay and Makati
By-laws	the By-laws of SMIC as amended to date
China Bank	China Banking Corporation
CDHI	Costa del Hamilo Inc.
Company, Issuer or SMIC	SM Investments Corporation
Debt-equity ratio	the ratio of Aggregate Consolidated Indebtedness or total stockholders' equity (excluding non-controlling interest) compared to the sum of such Aggregate Consolidated Indebtedness and total stockholders' equity (excluding non-controlling interest)
Directors	the directors of SMIC
DOSRI	Directors, officers, stockholders and related interests
EPCIB	Equitable PCI Bank, Inc.

Financial Statements	SMIC's audited consolidated financial statements and related notes as at 31 December 2011, 2012 and 2013, and for each of the three years in the period ended 31 December 2011, 2012 and 2013.
GFA	gross floor area
Government	the Government of the Philippines
Grand China	Grand China International Limited
Gross profit margin	sales minus cost of sales
Group	SMIC, its subsidiaries and associated companies
GSIS	Government Service Insurance System
Hedging Transactions	"Hedging Transactions" means any transaction pursuant to which: (i) a bank deposit held in a currency other than Pesos; or (ii) securities or instruments denominated in a currency other than Pesos issued or guaranteed by (a) the Republic of the Philippines (or any agency, instrumentality, ministry, department or other authority thereof) or (b) entities which are rated at least 'A' (long-term) by Standard & Poor's Ratings Services (or any successor) or 'A2' (long-term foreign currency senior unsecured debt rating) by Moody's Investors Service Inc. (or any successor), relating to, or acquired with, the proceeds of non-Peso denominated indebtedness for borrowed monies, that is pledged for the purposes of raising an equivalent amount of Peso denominated indebtedness for borrowed monies, such transaction being for the sole purpose of limiting the currency exchange risk of such non-Peso denominated indebtedness for borrowed monies in the ordinary course of business
HPI	Highlands Prime, Inc.
Home World	Home World Shopping Corporation
Issuer or SMIC	SM Investments Corporation
Issue Manager and Sole Bookrunner	BDO Capital & Investment Corporation
Joint Lead Underwriters	BDO Capital, **[•], [•], [•]** pursuant to the Underwriting Agreement
Kultura	Kultura Stores, Inc.
Major Consignors	Hardware Workshop, Home World, Baby Company, Signature Lines, Supplies Station, Toy World, Watsons, Sports Central and Kultura
Majority Bond Holders	Representing not less than 51% of the outstanding Bonds
Makro	Pilipinas Makro, Inc.
Malls	SM City North EDSA, SM Mall of Asia, SM Megamall, SM Aura Premier, SM City Southmall, SM City BF Paranaque, SM City Fairview, SM City San Lazaro, SM City Marikina, SM City Manila, SM City Sta. Mesa, SM City Bicutan, SM City Sucat, SM Center Valenzuela, SM City Novaliches, SM Center Muntinlupa, SM Center

	Las Pinas, SM Center Pasig, SM City Cebu, SM City Dasmarinas, SM Lanang Premier, SM City Clark, SM City Pampanga, SM City Davao, SM City General Santos, SM City Bacoor, SM City Baguio, SM City Iloilo, SM City Consolacion, SM City Tarlac, SM City Taytay, SM City Marilao, SM City Masinag, SM City Cagayan de Oro, SM City Sta. Rosa, SM City Batangas, SM City Lucena, SM City Lipa, SM City Naga, SM City Bacolod, SM City Calamba, SM City Rosales, SM City Baliwag, SM City Rosario, SM City San Pablo, SM Center Molino, SM City Olongapo, SM City San Fernando (see "Description of the Issuer and the Group — Malls and Real Estate — SM Prime Holdings, Inc. —Malls")
Management Companies	companies that manage and operate the Malls, including the provision of manpower, maintenance and engineering, security and promotional activities; and are controlled, directly or indirectly, by the Sy Family
Master Certificate of Indebtedness	the certificate to be issued by the Issuer to the Trustee evidencing and covering such amount corresponding to the Bonds
Material Subsidiary	SM Prime Holdings, Inc., , SM Retail, Inc., SM Mart, Inc., Supervalue, Inc. and Super Shopping Market, Inc., and shall include BDO Unibank, Inc., and any subsidiary of the Issuer
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela and the municipality of Pateros, which together comprise the "National Capital Region" and are commonly referred to as "Metropolitan Manila"
MR	Motion for Reconsideration
MRDC	Multi-Realty Development Corporation
NCCTs	Non-Cooperative Countries and Territories
Offer	the offer of the Bonds to the public by the Issuer under the terms and conditions as herein contained
Offer Period	the period commencing within two Business Days from the date of the issuance of the SEC Permit to Sell Securities, during which the Bonds shall be offered to the public
PAS	Philippine Accounting Standards
Paying Agent	**[**●Philippine Depository & Trust Corp.**]**, the party which shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records shown in the Register of Bondholders
Payment Date	each of the dates when payment of principal, interest and other amounts due on the Bonds are due and payable to the Bondholders; provided that, in the event any Payment Date falls on a day that is not a Business Day, the Payment Date shall be automatically extended without adjustment to interest accrued to the immediately succeeding Business Day
PDEx	Philippine Dealing & Exchange Corporation
PDIC	The Philippine Deposit Insurance Corporation

PDTC	the Philippine Depository & Trust Corporation, the central depository and clearing agency of the Philippines which provides the infrastructure for handling the lodgment of the scripless Bonds and the electronic book-entry transfers of the lodged Bonds in accordance with the PDTC Rules, and its successor-in-interest
PDTC Rules	the SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented, or modified from time to time
Person	any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization
Pesos or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards which includes statements named PFRS and PAS issued by the Financial Reporting Standards Council and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC)
Philippines	the Republic of the Philippines
PSE	The Philippine Stock Exchange, Inc.
Public Debt	means any present or future indebtedness in the form of, or represented by bonds, notes, debentures, loan stock or other securities that are at the time, or are of the type customarily quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market
R.A. No. 8799	Republic Act No. 8799, The Securities Regulation Code of the Philippines
Register of Bondholders	the electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar	the [●Philippine Depository & Trust Corporation], being the registrar appointed by the Issuer to maintain the Register of Bondholders pursuant to the Registry and Paying Agency Agreement
Reorganization	The reorganization of certain companies and assets of the SM Group as discussed in the section "Recent Developments and Prospects" on page [●] of this Prospectus
Retail Affiliates	retail companies, directly or indirectly, related to SMIC and/or the Sy Family, via ownership and/or control, including Watsons, Toy World, Home World, Ace Hardware Phils., Inc., Surplus Marketing Corp., Star Appliance Center, Inc., Nursery Care Corporation, Supplies Station, Sports Central and Kultura, among others
Retail Subsidiaries	the Group's retail and merchandising business, including SM Department Stores, SM Supermarkets, SM Hypermarkets and Savemore
ROA	return on assets which measures the ratio of net income attributable to equity holders of the parent to average total assets

ROE	return on equity which measures the ratio of net income attributable to equity holders of the parent to average total equity (excluding non-controlling interest)
ROPA	holdings in real and other properties acquired
Sanford	Sanford Marketing Corporation (formerly Sanford Investments Corp.)
SEC	the Securities and Exchange Commission of the Philippines
SEC Permit	the Permit to Sell Securities issued by the SEC in connection with the Offer
Singapore Stock Exchange or SGX-ST	Singapore Exchange Securities Trading Limited
Shares	common shares of the Issuer, which have a par value of ₱10 per share
SM China Companies	SM Shopping Center (Chengdu) Co. Ltd., Xiamen SM City Co. Ltd. and Xiamen SM Mall Management Co. Ltd. (together, "SM Xiamen") and SM International Square Jinjiang City Fujian ("SM Jinjiang") and SM Shopping Center (Suzhou) Co. Ltd. ("SM Suzhou")
SM Department Stores	the retail department stores operated by the Group under the "SM" name which presently include SM Quiapo, SM Makati, SM Cubao, SM Harrison, SM North EDSA, SM Sta. Mesa, SM Megamall, SM Cebu, SM Southmall, SM Bacoor, SM Fairview, SM Mandurriao, SM Manila, SM Pampanga, SM Davao, SM Cagayan de Oro, SM Bicutan, SM Lucena, SM Baguio, SM Marilao, SM Dasmariñas, SM Batangas, SM Delgado, SM San Lazaro, SM Sucat, SM Sta. Rosa, SM Clark, SM Mall of Asia, SM Lipa, SM Bacolod, SM Taytay, SM Marikina, SM Baliwag, SM Naga, SM Rosales, SM Rosario, SM Tarlac, SM San Pablo, SM Calamba, SM Novaliches, SM Masinag and SM Olongapo, SM Consolacion, SM Lanang, SM General Santos City, SM San Fernando, SM Aura, SM BF Paranaque
SM Mart	SM Mart, Inc., a 65.0% owned subsidiary through SM Retail
SMDC	SM Development Corporation
SM Hotels	SM Hotels and Conventions Corp. (formerly SM Hotels and Entertainment Corp.)
SM Land	SM Land, Inc. (formerly Shoemart, Inc.) which was merged with SM Prime in October 2013
SM Malls in China	SM Xiamen and Xiamen/Lifestyle Center, SM City Jinjiang, SM City Chengdu, SM City Suzhou, and SM City Chongqing
SM Network	suppliers, tenants and other merchants that do business with entities affiliated with SMIC
SM Prime	SM Prime Holdings, Inc.
SM Retail	SM Retail, Inc. and its subsidiaries SM Department Stores, Supervalue, Inc., Sanford Marketing Corporation and Super Shopping Market, Inc.
SME	small and medium enterprise

Sports Central	Sports Central (Manila), Inc.
SSMI	Super Shopping Market, Inc.
SSS	Social Security System, the Philippines' state pension fund for retired private sector employees
Store Consignors	suppliers who are allocated portions of the selling areas within the relevant departments of SM Department Stores within which to sell their merchandise. See "Description of the Issuer and the Group — Retail and Merchandising — SM Department Stores"
Subsidiary	at any particular time, any company or other business entity which is then directly or indirectly controlled, or more than 50%, of whose issued equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its Subsidiaries. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and control shall be construed accordingly.
Supplies Station	Supplies Station, Inc.
SVI	Supervalue, Inc.
Sy Family	Mr. Henry Sy, Sr., his wife, Mrs. Felicidad T. Sy, and their children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy
Tax Code	the amended Philippine National Internal Revenue Code of 1997 and its implementing rules and regulations
Total Assets	consolidated total assets of the Issuer and its subsidiaries
Total Liabilities	the aggregate of consolidated total current and consolidated total noncurrent liabilities of the Issuer as derived from the balance sheet of the relevant Accounts, excluding (i) any Peso denominated indebtedness for borrowed monies entered into with respect to any Hedging Transaction and (ii) non-controlling interests
Total Equity	the total consolidated equity of the Issuer as derived from the balance sheet of the relevant Accounts
Toy World	International Toy World, Inc.
Trustee	Philippine National Bank Trust Banking Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate
Underwriters	the entities appointed as the Underwriters for the Bonds pursuant to the Underwriting Agreement

Watsons	Watsons Personal Care Stores (Philippines), Inc.
WalterMart	Waltermart Supermarket, Inc.

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Prospectus. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Prospectus shall have the same meanings when used in this summary. Prospective investors should therefore read this Prospectus in its entirety.

The Issuer and the Group

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On 29 April 2009, the Company's shareholders approved the amendment of SMIC's Articles of Incorporation, extending the Company's corporate life for another 50 years from 15 January 2010. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines. Through its subsidiaries, associates and other investments, the Issuer operates a diversified range of businesses located in the Philippines.

The Group's business activities and interests are divided into five principal business sectors:

- retail merchandising through its department store, supermarket, savemore, hypermarket and wholesale operations (SM Retail);
- shopping mall developments, where it is the leading shopping mall operator in the Philippines (SM Prime);
- real estate development and tourism (SM Prime and its subsidiaries SMDC, CDHI and HPI);
- hotels and conventions (SM Hotels); and
- financial services, through its associate banks that have universal banking licenses in the Philippines (BDO and China Bank).

As of the date of this Prospectus, the Issuer had four principal consolidated subsidiaries namely SM Prime, SM Retail, SVI and SSMI and two principal equity-accounted associates, namely BDO and China Bank, each of whose shares are listed on the PSE, (except for SM Retail, , SVI and SSMI), in which the Issuer had effective interests of 51.6%, 100.0%, 100.0%, 100.0%, 46.7%, and 20.01%, respectively.

For the years ended 31 December 2011, 2012 and 2013, the Issuer's audited consolidated revenues were ₱199,915.6 million, ₱223,877.2 million and **[●]** respectively, and its audited consolidated net income attributable to equity holders of the parent were ₱21,224.6 million, ₱24,674.4 million and **[●]**, respectively.

As at 31 December 2011, 2012 and 2013, the Issuer's audited consolidated total assets were ₱449,062.1 million, ₱561,804.0 million and **[●]** respectively, and its audited total equity was ₱222,286.9 million, ₱261,645.0 million and **[●]** respectively.

The principal source of consolidated revenue of the Issuer is from sales of merchandise, primarily from Retail Subsidiaries, which contributed ₱150,472.7 million, ₱161,149.6 million and **[●]** respectively, or 75.3%, 72.0% and **[●]** respectively, of its consolidated revenues for the years ended 31 December 2011, 2012 and 2013. Shopping Malls contributed ₱22,268.0 million, ₱25,893.3 million and **[●]** or 11.1%, 11.6% and **[●]** respectively, of the Issuer's consolidated revenues for the years ended 31 December 2011, 2012 and 2013. Real Estate Group and Retail Subsidiaries contributedP19,269.3 million, ₱25,465.9 million and **[•]** respectively, of the Issuer's consolidated net income attributable to equity holders of the parent for the years ended 31 December 2011, 2012 and 2013.

History

Mr. Henry Sy, Sr., the founder of the Group, embarked upon his retailing career immediately after the Second World War when, in 1945, he established a small shoe store in Carriedo, Metro Manila. Having opened six shoe stores, Mr. Sy diversified the business into clothing and soft goods. In 1958, the first Shoe Mart store opened in Rizal Avenue, Metro Manila and, following the incorporation of Shoemart in March 1960, additional stores opened in Makati Commercial Center in 1962, in Cebu in 1965 and in Cubao in 1967. Four department stores were opened during the 1970s and, with the intention that one-stop shopping convenience be provided to customers, the new stores featured fast food centers and entertainment areas.

Shoemart operated six SM Department Stores until November 2001, when five stores were transferred to SM Mart. As at December 31, 2008, SM Mart is a 65.0% owned subsidiary through SM Retail, with the remaining 35.0% held by the Sy Family. Pursuant to a restructuring of the Issuer's department store business in 2002, SM Mart took over most of Shoemart's functions in managing its department store business, such as merchandising, marketing, advertising and certain other services for the SM Department Stores as well as for its Retail Affiliates. In addition to the five SM Department Stores that are directly owned and operated by SM Mart, the Issuer also operates 37 SM Department Stores through 12 other subsidiaries. The Group acquired its supermarket and hypermarket operations in June 2006. Shoemart was renamed SM Land, Inc.

Capitalizing upon the success of the SM Department Stores and as an extension of the concept of one-stop shopping, the first shopping mall, SM City — North EDSA, commenced operations in Quezon City in 1985. By January 1994, four shopping malls had been opened, including SM Megamall, the largest shopping mall in the Philippines prior to the opening of SM Mall of Asia in 2006. SM Prime was incorporated in 1994 for the primary purpose of acquiring from other members of the Group, as well as companies affiliated to the Sy Family, the shopping malls and land intended for the development of shopping malls and, henceforth, to be the Group vehicle for commercial center operations. SM Prime undertook its initial public offering on the PSE in July 1994, raising approximately ₱6.0 billion. SM Prime currently owns and operates, with the assistance of certain Management Companies, 48 shopping malls in the Philippines. In November 2007, SM Prime approved the acquisition from the Sy Family of three malls in the southern and western parts of China, namely Xiamen, Jinjiang and Chengdu and completed the acquisition in May 2008. SM Suzhou and SM Chongqing in China opened in September 2011 and December 2012 respectively. SM Prime intends to open SM Zibo in 2014 and SM Tianjin in 2015.

The Issuer's expansion into real estate development commenced in October 1974 with the incorporation of MRDC. MRDC was formed to develop high-rise condominiums and townhouse units in the prime district of Makati.

In November 1976, Mr. Henry Sy, Sr. acquired Acme Savings Bank, which was renamed Banco de Oro Savings and Mortgage Bank in August 1977 and then as Banco de Oro Commercial Bank in December 1994. The Bank initially provided services predominantly to suppliers of Shoemart, but has subsequently developed into a full-service commercial bank. In August 1996, the Bank was renamed Banco de Oro Universal Bank when the BSP granted approval for the Bank to operate as an expanded commercial bank. Banco De Oro undertook its initial public offering and was listed on the PSE in May 2002, raising ₱2.1 billion. In May 2007, the Bank merged with EPCIB and was subsequently renamed Banco De Oro Unibank, Inc. on 6 February 2008. On November 4, 2011, the Bank was renamed to BDO Unibank, Inc. as part of the company's branding initiatives.

In 1986, the Group obtained majority ownership of SM Fund, Inc., a closed-end investment company listed on the PSE. In May 1996, the SEC approved a change of name of the company to SM Development Corporation and a change of its purpose to property holding and development. The Group has also diversified into tourism and entertainment with plans for the development of mixed-use complexes in Cebu, Tagaytay, Batangas, Baguio and Metro Manila, which include hotels, convention centers, shopping malls and leisure and entertainment facilities. On 1 August 2007, the Issuer approved to rationalize Shoemart as the holding entity for the various property projects of the Group. On 8 October 2007, the Issuer and Shoemart entered into an agreement whereby the Issuer agreed to swap its 1,823,841,965 common shares in SMDC in exchange for 372,212 common shares in Shoemart based on an independent valuation of the respective shares by Macquarie Securities (Asia) Pte Limited. On 24 January 2008, the SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issue of 372,212 shares.

On 2 April 2008, SM Hotels was incorporated to further focus on and develop the Group's hotel business, and rationalize the Group's hotel and convention assets under one entity. On 29 March 2010, the SEC approved the change in the corporate name of SM Hotels and Entertainment Corp. to SM Hotels and Conventions Corp.

On 31 May 2013 the Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime in line with the Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the Group's various real estate business units and further enhance the value of the SM Group's real estate businesses. As of the date of this Prospectus, the Group has successfully completed the reorganization resulting to SM Prime becoming one of the largest real estate companies in South East Asia with total assets of **[●]** as of December 31, 2013 and an aggregate land bank of more than 825 hectares (see "Recent Developments and Prospects" on page **[●]**).

SMIC was listed on the PSE on 22 March 2005, and as at **[**14 February 2014**]**, had a market capitalization of ₱**[**558,983**]** million, based on a price of ₱**[**703.00**]** per common share on such date.

Strategy

The Issuer's strategy is focused on growing its commercial center, retail, property and financial services businesses, and maintaining or attaining market leadership in each of their respective sectors. The Issuer will continue to target the mass market in the Philippines by offering essential goods and services such as food, clothing, housing and financial services.

The Issuer is responsible for setting Group policy and strategy. The Issuer establishes the financial and operating policies for the Group and supervises and monitors the performance of its subsidiaries and associates.

Key elements of the Issuer's strategy are to:

- maintain its leading market share in the shopping mall sector by continuing to expand the Group's mall and retail activities into major centers of population in Metro Manila and particularly in the provinces where there are opportunities for growth, and capture strategic opportunities overseas particularly China;

- continue to capture a significant share of retail spending in the Philippines, including what it believes is a significant share of approximately US$20.1 billion for 2011 (based on BSP data) in remittances from overseas Filipino workers by ensuring that the Issuer provides the most attractive retail and leisure facilities to Philippine mass market consumers;

- continue to grow its financial services businesses, including through acquisitions by BDO, and develop further synergies between financial services and its shopping malls and the Retail

Subsidiaries by encouraging its suppliers and retail customers to take advantage of and utilize the financial services offered by BDO and China Bank;

- diversify and expand the businesses of the Group (including through acquisition) by developing opportunities in the property development, tourism and leisure sectors, where it believes there are significant opportunities for growth as the Philippines becomes a more attractive tourist destination, by leveraging the Group's significant and strategically located land bank;

- integrate all land banking functions into a centralized department while retaining the highly successful culture that allowed the Group to reach its strong current land bank position, and continue acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines;

- supervise a range of related businesses and investments, providing support, expertise and funding to its developing businesses and encouraging further growth in its more established businesses; and

- promote the independence of its various businesses in terms of executing set strategies and encouraging financial independence in terms of external funding.

Strengths

The Issuer believes that the key strengths of the Group are as follows:

- a well-established platform providing quality services from retail to real estate development to financial services to cater for the domestic consumption growth in the Philippines;

- its 56 years of retail experience, which has created significant goodwill among its customers and suppliers, a well-known brand and image and a reputation for providing value for customers;

- its leading market share positions in providing one-stop experience through shopping malls, department stores and supermarkets and the largest bank in the Philippines in terms of assets;

- fast growing residential development expertise that is sitting at the sweet spot of the local real estate markets, well-supported by SM-branded shopping malls nearby;

- prudent financial management and a strong balance sheet with stable recurring cash flows through focusing on diverse businesses which are relatively less cyclical;

- its experienced management team, which has consistently focused on related businesses that promote synergies; and

- its overall corporate reputation in the Philippines and abroad, which has brought the Group numerous awards for corporate excellence, corporate governance and financial management.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Bonds. These risks include:

Risks Relating to the Company

- The Issuer is primarily a holding company and payments under the Bonds are structurally subordinated to all liabilities of the Issuer's subsidiaries and associates

- Any restriction or prohibition on the Issuer's subsidiaries' and associates' ability to distribute dividends would have a negative effect on its financial condition and results of operations

- The Issuer is controlled by the Sy Family, whose interests may not be the same as those of other shareholders

- The Issuer's businesses have significant levels of related party transactions and are interdependent, and any material adverse change in one member of the Group could adversely affect the results of operations of other members of the Group, including SMIC

- The Issuer depends on members of the Sy Family as regards the management of its business

- The Issuer has conducted and may continue to conduct acquisitions, the impact of which could be less favorable for its activities and results than anticipated, or which could affect its financial situation

- Infringement of the SM intellectual property rights would have a material adverse effect on the Group's business

- The Group's debt leverage will be increased following the issue of the Bonds

Risks Relating to the Group's Real Estate and Shopping Malls Businesses

- The Philippine property market is cyclical and can be affected by domestic and global economic conditions

- SM Prime may face challenges of title to land

- SM Prime will continue to compete with other mall operators and commercial and residential developers

- SM Prime is exposed to risks associated with the operation of its malls and commercial businesses

- SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses

- Property development in the Philippines is capital intensive, and the necessary funding may not be available

- Malls and other commercial properties owned by SM Prime may be subject to an increase in operating and other expenses

- SM Prime faces risks relating to the management of its land bank

- SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines

- SM Prime may suffer material losses in excess of insurance proceeds

- The Group faces property development risk

Risks Relating to the Retail Operations

- The success of the Retail Subsidiaries and Retail Affiliates will be dependent in part on the Issuer's continued ability to satisfy consumer preferences and spending trends in the markets in which the Retail Subsidiaries operate

- The Retail Subsidiaries depend on their ability to retain existing suppliers and secure new suppliers

- Non-renewal of leases or substantial increases in rent for the Issuer's retail stores may have a material adverse effect on the Issuer

- The future growth of the Retail Subsidiaries will be largely driven by the effectiveness and success of their expansion strategy

- The Retail Subsidiaries and Retail Affiliates may be subject to increasing competitive pressures

- There can be no assurance that the Retail Subsidiaries are fully insured against unexpected losses

- The Retail Subsidiaries' business activities are subject to seasonality and timing

- The supermarket and hypermarket industry is highly competitive and characterized by narrow profit margins

- As a result of selling food products, the Group faces the risk of exposure to product liability claims and adverse publicity

Risks Relating to the Banks

- The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the banks' principal businesses

- Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

- Philippine 'anks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries

- Philippine banks face regulatory pressure to comply with new capital standards

Risks Relating to the Philippines

- Substantially all of the Group's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially adversely affect its businesses

- Any political instability in the future may have a negative effect on the Group's financial results

- SM Group's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines

- Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect the Group's businesses

- Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

Risks Relating to the Bonds

- The priority of debt evidenced by a public instrument
- An active trading market for the Bonds may not develop
- The Issuer may be unable to redeem the Bonds

Please refer to the section entitled “Risk Factors” on page **[•]** of this Prospectus which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Bonds.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated. The selected financial information presented below as at 31 December 2011, 2012 and 2013 and for each of the three years in the periods ended 31 December 2011, 2012 and 2013 has been derived from the Issuer's consolidated financial statements. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Prospectus.

Consolidated Balance Sheets	**As at 31 December**				
	2011		**2012**		**2013**
(in ₱ thousands)					
ASSETS					
Current Assets					
Cash and cash equivalents	56,050,322		60,714,720		
Time deposits and short-term investments	879,410		29,090,335		
Investments held for trading and sale	1,939,709		2,854,541		
Receivables	11,764,852		16,365,552		
Merchandise inventories - at cost	13,436,456		13,402,762		
Other current assets	17,189,740		23,458,208		
Total Current Assets	101,260,489		145,886,118		
Noncurrent Assets					
Available-for-sale investments	12,453,181		16,912,646		
Investments in shares of stocks of associates	88,417,849		128,453,744		
Time deposits	37,416,562		29,432,850		
Property and equipment	15,092,354		17,186,517		
Investment properties	131,275,911		149,970,690		
Land and development	23,012,453		30,197,862		
Intangibles	15,354,200		15,354,200		
Deferred tax assets - net	694,644		642,105		
Other noncurrent assets	24,084,415		27,767,236		
Total Noncurrent Assets	347,801,569		415,917,850		
Total Assets	**449,062,058**		**561,803,968**		

LIABILITIES AND EQUITY	As at 31 December		
	2011	2012	2013
(in ₱ thousands)			
Current Liabilities			
Bank loans	25,747,920	31,793,975	
Accounts payable and other current liabilities	44,749,807	57,865,876	
Income tax payable	1,331,046	1,474,045	
Current portion of long-term debt	7,920,961	13,859,558	
Dividends payable	25,696	97,282	
Total Current Liabilities	79,775,430	105,090,736	
Noncurrent Liabilities			
Long-term debt - net of current portion	128,464,019	174,532,871	
Derivative liabilities	237,980	244,330	
Deferred tax liabilities - net	4,507,979	4,542,918	
Defined benefit liability	76,487	-	
Tenants' deposits and others	13,713,302	15,748,135	
Total Noncurrent Liabilities	146,999,767	195,068,254	
Total Liabilities	226,775,197	300,158,990	
Equity Attributable to Owners of the Parent			
Capital stock	6,121,640	6,229,746	
Additional paid-in capital	35,536,615	42,858,920	
Equity adjustments from business combination under common control	(2,332,796)	(2,332,796)	
Cost of Parent common shares held by subsidiaries	(263,195)	(125,906)	
Cumulative translation adjustment of a subsidiary	428,058	266,915	
Net unrealized gain on available-for-sale investments	7,008,067	11,718,559	
Retained earnings:			
Appropriated	5,000,000	35,000,000	
Unappropriated	106,167,942	94,458,694	
Total Equity Attributable to Owners of the Parent	157,666,331	188,074,132	
Non-controlling Interests	64,620,530	73,570,846	
Total Equity	222,286,861	261,644,978	
Total Liabilities and Equity	449,062,058	561,803,968	

Consolidated Statements of Income	For the year ended 31 December		
(in ₽ thousands, except per share data)	**2011**	**2012**	**2013**
Revenue			
Sales:			
Merchandise	148,182,071	158,888,415	
Real estate and others	17,874,409	23,438,959	
Rent	20,472,785	24,155,567	
Equity in net earnings of associates	6,415,424	9,042,034	
Cinema ticket sales, amusement and others	4,138,053	4,824,228	
Management and service fees	880,679	1,112,302	
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net	410,522	2,055	
Dividend income	368,919	628,385	
Others	1,538,940	1,785,329	
	200,281,802	223,877,274	
Cost and Expenses			
Cost of Sales:			
Merchandise	112,192,756	117,896,688	
Real estate and others	10,289,007	14,124,779	
Selling, general and administrative expenses	40,412,750	44,978,822	
	162,894,513	177,000,289	
Other Income (Charges)			
Interest expense	(8,836,013)	(10,811,736)	
Interest income	4,274,640	4,416,746	
Gain on disposal of investments and properties	2,623,864	1,301,888	
Gain (loss) on fair value changes on derivatives - net	-	(1,403,411)	
Foreign exchange gain – net	242,862	565,132	
	(1,694,647)	(5,931,381)	
Income before income Tax	35,692,642	40,945,604	
Provision for (benefit from) income tax			
Current	5,534,187	6,453,836	
Deferred	(39,369)	91,250	
	5,494,818	6,545,086	
Net income	30,197,824	34,400,518	
Attributable to:			
Owners of the Parent	21,224,592	24,674,381	
Non-controlling interests	8,973,232	9,726,137	
	30,197,824	34,400,518	
Earnings per Common Share			

Basic	34.68		39.85		
Dilutive	34.63		39.08		

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus.

Issuer	SM Investments Corporation
Issue / Issue Size	Fixed rate Bonds in the aggregate principal amount of ₱10,000,000,000 to be registered with the SEC
Oversubscription Option	In the event of oversubscription, the Issue Manager and Joint Lead Underwriters, in consultation with the Issuer, reserve the right to increase the aggregate Issue Size by up to ₱5,000,000,000
Manner of Offer	Public offering
Use of Proceeds	The net proceeds of the Issue shall be used primarily [to refinance certain existing debt obligations and finance expansion projects (see “Use of Proceeds”)
Issue Price or Offer Price	100% of the face value of the Bonds
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00 each, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market
Offer Period	The offer of the Bonds shall commence at 9:00am on **[•]** and end at 12:00pm on [● **]**
Issue Date	**[•]**
Maturity Date	Series E : Seven (7) years from Issue Date; Series F : Ten (10) years from Issue Date

Interest Rate	Series E : **[●]**% per annum Series F : **[●]**% per annum
Interest Computation & Payment	Interest on the Bonds shall be calculated on a 30/360 day count basis commencing on **[●]**. Interest on the Series E and Series F Bonds shall be paid semi-annually in arrears on **[●]** and **[●]** of each year.
Optional Redemption	Prior to final redemption, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, each outstanding series of the Bonds on the tenth (10th) Interest Payment Date of the Series E Bonds and on the fourteenth (14th) Interest Payment Date of the Series F Bonds, respectively (each, an "Optional Redemption Date"). The Issuer shall give not less than thirty (30) nor more than (60) calendar days' prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Interest Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemption shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) one hundred two per cent (102%) of the principal amount; and (ii) accrued interest on the Bonds on the Optional Redemption Date.
Final Redemption	The Bonds shall be redeemed at 100% of face value on their respective Maturity Dates.
Trustee	Philippine National Bank Trust Banking Group
Registrar & Paying Agent	**[**●Philippine Depository & Trust Corp.]
Taxation	<u>Bond Interest</u> Interest income derived by Philippine citizens or resident foreign individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign

corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

Bondholders who are exempt from or are not subject to final withholding tax on interest income or are covered by a lower final withholding tax rate by virtue of a tax treaty may claim such exemption or lower rate, as the case may be, by submitting the necessary documents as required by the Bureau of Internal Revenue and the Issuer.

Listing	The Bonds are intended to be listed in the Philippine Dealing & Exchange Corporation

RISK FACTORS

Investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a big difference between the buying price and the selling price of these securities. An investor deals in a range of investments, each of which may carry a different level of risk.

Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below. The business, financial condition or results of operations of SMIC could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Issuer or which the Issuer currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/she may request information on the securities and issuer thereof from the Commission which are available to the public.

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities especially those high risk securities.

This section entitled "Risks Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities.

The risks enumerated hereunder are considered to be each of equal importance.

The means by which the Company plans to address the risks discussed herein are presented in the sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategies," and "Management's Discussion and Analysis of Financial Position and Financial Performance."

Risks Relating to the Company

The Issuer is primarily a holding company and payments under the Bonds are structurally subordinated to all liabilities of the Issuer's subsidiaries and associates

The Issuer is primarily a holding company and its ability to make payments in respect of the Bonds or to fund payments by the Issuer depends largely upon the receipt of dividends, distributions, interest payments, management fees, or advances from its subsidiaries and associates. The ability of such companies to pay dividends and other amounts to the Issuer may be subject to their profitability and to applicable laws and restrictions on the payment of dividends and other amounts contained in relevant financing and other arrangements. Payments under the Bonds are effectively subordinated to all existing and future liabilities and obligations of each of the Issuer's subsidiaries, jointly controlled entities, and associates. Claims of creditors of such companies will have priority as to the assets of such companies over the Issuer and its creditors, including holders of the Bonds. As at 31 December 2013, the aggregate outstanding indebtedness (comprising bank loans, current portion of long-term debt, and long-term debt - net of current portion) of the Issuer's subsidiaries and associates is approximately **₱[●]** million.

The Issuer, as the parent company, is actively involved in the planning and financing activities of its subsidiaries. Also, the Issuer has majority control of these subsidiaries' boards of directors, thereby allowing it to exercise significant influence in the management and policy formulation processes of these subsidiaries in terms of, among others, business strategy, profit generation and dividend declaration.

Any restriction or prohibition on the Issuer's subsidiaries' and associates' ability to distribute dividends would have a negative effect on its financial condition and results of operations

The Issuer is a holding company that conducts all of its operations through its subsidiaries and associates. As a holding company, the Issuer's revenues are derived from, among other sources, dividends and management fees paid to the Issuer by its subsidiaries and associates. The Issuer is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the Issuer's direct and indirect subsidiaries and associates to pay dividends to their shareholders (including the Issuer) is subject to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such subsidiaries and may also be subject to the deduction of taxes.

In addition, the declaration of dividends by Philippine banks is subject to approval by the BSP, thereby affecting the payment of dividends from BDO and China Bank to the Issuer.

Any restriction or prohibition on the ability of some or all of the Issuer's subsidiaries or associates to distribute dividends or make other distributions to the Issuer, either due to regulatory restrictions, debt covenants, operating difficulties or other limitations, could have a negative effect on the Issuer's cash flow and therefore its financial condition and results of operations.

As aforementioned, the Issuer, as a parent holding company, has majority control in the management and in the boards of directors of its subsidiaries. The Issuer can thus exert its influence on matters relating to these subsidiaries' respective managements, compliance with applicable regulatory and contractual restrictions and dividend declaration.

The Issuer is controlled by the Sy Family, whose interests may not be the same as those of other shareholders

The Sy Family currently, directly or indirectly, controls approximately **[●]**% of the outstanding Shares as at 31 December 2013. Accordingly, the Sy Family is able to elect members of the Board and pass shareholder resolutions (including special resolutions), both of which under the By-laws generally require a majority vote by its shareholders (or a two-thirds majority in the case of special resolutions). In addition, members of the Sy Family hold four out of eight seats on the Board and Mr. Henry Sy, Sr., who is the Chairman, has a casting vote. Accordingly, the Sy Family exercises control over major policy decisions of the Issuer, including its overall strategic and investment decisions, dividend plans, issuances of securities, adjustments to its capital structure, mergers, liquidation or other reorganization and amendments to its Articles of Incorporation and By-laws. If the interests of the Sy Family conflict with the interests of other shareholders of the Issuer, there can be no assurance that the Sy Family would not cause the Issuer to take action in a manner which might differ from the interests of other shareholders.

The Issuer has in place a corporate governance structure which is consistent with requirements set forth by Philippine regulations. Furthermore, it has three independent directors in its Board who actively participate in enforcing the governance structures' mandate to protect the interests of all shareholders, including the minorities. The Issuer is also professionally managed by executives and officers with expertise in their respective fields.

The Issuer's businesses have significant levels of related party transactions and are interdependent, and any material adverse change in one member of the Group could adversely affect the results of operations of other members of the Group, including SMIC

A significant part of the business undertaken by members of the Group is conducted with other members of the Group, as well as other affiliated companies owned by the Sy Family which are not within the Group, such as the Management Companies and the Retail Affiliates. The operations of many members of the Group are interdependent. These transactions include those described under "Related Party Transactions" and the notes to the Financial Statements appearing elsewhere in this Prospectus. In addition, the Issuer expects that in the future, Group companies will continue to enter into transactions with each other as well as other companies directly or indirectly controlled by or associated with the Sy Family, including the Management Companies and the Retail Affiliates. These transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to the Issuer. Conflicts of interest may also arise between the Sy Family and the Issuer in a number of other areas relating to the Issuer's businesses, including:

- major business combinations involving the Group, including transfers of affiliated companies into the Group (see "Related Party Transactions");
- plans to develop the respective businesses of the Group and of other entities within the Group; and
- business opportunities that may be attractive to both the Sy Family and SMIC.

Such interdependence may mean that any material adverse change in one member of the Group, or companies which are controlled by the Sy Family, could adversely affect the results of operations of other members of the Group, including the Issuer.

In addition, certain members of the Group, such as SM Prime, have contractual arrangements with companies controlled by the Sy Family. The Issuer's policy is that transactions between Group companies and companies which are controlled by the Sy Family are undertaken on an arm's length commercial basis.

While there are related party transactions which provide synergy between the various subsidiaries, these are made on arm's length commercial market terms. Each subsidiary is managed and operated independently in these transactions and each company is responsible for its results of operations.

The Issuer depends on members of the Sy Family as regards the management of its business

Members of the Sy Family currently manage the business operations of various entities within the Group including its key subsidiaries. In addition, the Sy Family has a wide range of other commercial interests outside the Group, many of which are affiliated with members of the Group, including the Management Companies and the Retail Affiliates. There can be no assurance that such other business interests will not require significant time and commitment from the Sy Family which might reduce their time devoted to their current roles within the Issuer's business. Furthermore, as the businesses of the Group expand, there can be no assurance that the Sy Family will continue to be able to allocate the same or a similar proportion of their time or other resources to the management or supervision of such businesses.

The Issuer's Chairman, Mr. Henry Sy, Sr., is the founder of the Group. Mr. Sy's daughter, Teresita T. Sy, and son, Henry T. Sy, Jr., have been appointed Vice Chairperson and Vice Chairman, respectively of the Issuer, and are involved in the strategic planning and management of the Issuer's operations. The Issuer does not hold any key man insurance for its senior executives, nor does it have any employment contracts containing restrictive covenants with respect to such executives. While Teresita T. Sy, Henry T. Sy, Jr. and other members of the Sy Family are expected to remain actively involved in the day-to-day operations and management of the Group, except for a provision in the By-laws indicating that no person shall qualify or be eligible for nomination or election to the Board if he is engaged in any business which competes with or is antagonistic to that of the Issuer, there are no legal restrictions nor any contractual commitments that would prevent the Sy Family from competing with the Group or individual businesses within the Group. There can be no assurance that any potential conflicts of interest would be resolved in the best interests of SMIC or the Group, and even if they were, the resolution may be less favorable than if SMIC or the Group were dealing with an independent party.

The unavailability of continuing services from the Sy Family may adversely affect the financial condition and results of operations of the Group. In addition, as at 31 December 2013, Mr. Henry Sy, Sr. and his wife Mrs. Felicidad T. Sy held **[•]**% and **[•]**% of the outstanding issued Shares, respectively, and five of their children own approximately **[•]**% to **[•]**% each. There can be no assurance that there will not be any transfer of interests between family members or any sale of Shares to third parties that would not alter the balance of the family holdings, thereby influencing control.

The Group has professional executives and managers in each of the operating subsidiaries. In addition, it has engaged several consultants in various fields of competency. At the board of directors' level, each of the publicly listed subsidiaries have respected individuals who serve as independent directors and advisors to these boards of directors.

The Issuer has conducted and may continue to conduct acquisitions, the impact of which could be less favorable for its activities and results than anticipated, or which could affect its financial situation

As part of its business strategy, the Issuer has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (ii) the Issuer may not integrate acquired businesses, technologies, products, personnel and operations effectively; (iii) the Issuer may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Issuer may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) the Issuer may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or affect the Issuer's financial condition.

Prior to pursuing acquisition opportunities, the Issuer undertakes a comprehensive evaluation of these opportunities' fit with the Group's overall business strategy. Part of this process involves, aside from determining potential synergies, a determination of the appropriate integration strategies and plans to adopt in order to effectively realize these potential benefits in efficiencies and synergies. It likewise undertakes a comprehensive due diligence evaluation of potential acquisition or investee companies in order to determine the necessary governance, strategic and operating plans to adopt in order to mitigate acquisition risks.

Infringement of the SM intellectual property rights would have a material adverse effect on the Group's business

The Group relies on trademarks to establish and protect the SM name, logo and other SM in-house brands. The Group believes that the trademarks and its intellectual property rights are important to its success and competitive position. There can be no assurance that the actions the Group has taken will be adequate to prevent brand and product imitation by others or to prevent others from using the SM name as a violation of its trademarks and other intellectual property rights. In addition, there can be no assurance that others will not assert rights in, or ownership of, the Group's trademarks and other intellectual property rights. The Group's business, financial condition and results of operations may be materially and adversely affected by trademark infringements or trademark disputes with others.

The Group registers all its brands to protect its intellectual property rights and actively monitors the validity of these registrations. While the SM brand has goodwill, the Issuer believes that it is still good management expertise that determines the success of its business undertakings and the success of these brands.

The Group's debt leverage will be increased following the issue of the Bonds

As at 31 December 2013, the Group had aggregate indebtedness (comprising bank loans, current portion of long-term debt, and long-term debt - net of current portion) of ₱**[•]** million, on a consolidated basis and total equity (excluding non-controlling interest) of ₱**[•]** million, resulting in a debt-equity ratio of approximately **[•]**. Following the issue of the Bonds, the Group's indebtedness on a consolidated basis will increase to ₱**[•]** million, and its debt-equity ratio will increase to approximately **[•]** (see "Capitalization and Indebtedness"). The increase in the Group's level of outstanding debt following this Offer will increase the Group's exposure to a number of risks associated with debt financing, including the risk that cash flows from the Group's operations will be insufficient to meet required payments of principal, the risk that the repayment of the Group's foreign currency loans may be adversely affected if the peso depreciates against the US dollar, the risk that the Group will become more vulnerable to general adverse economic and industry conditions and the risk that it may not be possible to obtain refinancing on favorable terms when required or if at all. Although the Group anticipates that it will be able to repay or refinance existing debt, and any other indebtedness when it matures, there can be no assurance that it will be able to do so.

The Group's resulting gross debt-equity ratio of **[•]**, subsequent to the issue of the Bonds, shall remain well within its maximum permissible ratio of 80:20 as set out in the Group's debt covenants. On a net debt basis, the resulting debt-equity ratio is only **[•]**.

Risks Relating to the Group's Malls and Real Estate Businesses

The Philippine property market is cyclical and can be affected by domestic and global economic conditions.

SM Prime derives a substantial portion of its revenue from rents and sales relating to its portfolio of malls, residential and commercial property developments and other leisure and mixed-use properties, substantially all of which are located in the Philippines. Accordingly, SM Prime is heavily dependent on conditions in the Philippine property market. In the past, the Philippine property market has been cyclical, and property values have been affected by the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and social developments.

Since the second half of 2008, the global financial markets have experienced, and may continue to experience, significant dislocations, which originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. These disruptions and other events, such as rising government deficits and debt levels, the sovereign credit ratings downgrades and ensuing public deficit and debt reduction measures of the United States and certain member states of the European Union, the risk of a partial collapse of the Eurozone and slower rates of growth in the Chinese economy have had and continue to have a significant adverse effect on the global financial markets. In particular, the global financial crisis in 2008 and 2009 resulted in a generally negative effect on real estate property prices globally, including in the Philippines, and continued uncertainty and volatility in global economic conditions may result in further adverse impacts to SM Prime. These adverse effects can result in, among others, lower demand and values for real estate in the Philippines, increased difficulties on the part of tenants in meeting their lease and other financial obligations, and greater difficulties for SM Prime in obtaining financing where necessary to fund the acquisition and development of their real estate projects.

SM Prime's growth is largely dependent on its ability to construct profitable malls in new locations in the Philippines. The substantial majority of the aggregate net leasable area in these malls is dedicated to retail use, exposing SM Prime to risks relating to economic conditions in the Philippines such as trends in consumer spending, exchange rates and spending patterns of OFWs and their dependents, and the supply of, or demand from, tenants for retail space and other competing commercial malls. Declines in consumer spending and other factors that may result in lower demand for retail space could have a material adverse effect on SM Prime's ability to successfully operate and develop existing and future malls.

In addition, demand for new residential projects in the Philippines has fluctuated in the past as a result of prevailing economic conditions in both the Philippines and in other countries, such as the United States (including overall growth levels and interest rates), the strength of overseas markets (as a substantial portion of demand comes from Overseas Filipino Workers ("OFWs") and expatriate Filipinos), the political and security situation in the Philippines and other related factors.

General cyclical trends in the Philippines and international property markets, as well as significant uncertainties and volatilities in the domestic, regional and global economic conditions affecting those property markets, are expected to continue, and accordingly SM Prime's results of operations may fluctuate from period to period in accordance with those fluctuations. There can be no assurance that such variances will not have a material adverse effect on the business, financial condition and results of operations of SM Prime.

SM Prime may face challenges of title to land.

While the Philippines has adopted a system of land registration which is intended to conclusively confirm land ownership, and which is binding on all persons (including the Government), it is not uncommon for third parties to claim ownership of land that has already been registered and over which a title has been issued. There have also been cases where third parties have produced false or forged title certificates over land. In particular, Quezon City, Metro Manila and the province of Cavite, have been known to experience problems with syndicates of squatters and forged or false title holders. Although SM Prime generally conducts extensive title searches before it acquires any parcel of land, from time to time it has defended itself against third parties who claim to be the rightful owners of land which has been either titled in the name of the persons selling the land to those companies or which has already been titled in those companies' names. In the event a greater number of similar third-party claims are brought against SM Prime in the future or any such claims involve land that is material to SM Prime's malls, residential developments and other real estate assets, SM Prime's management may be required to devote significant time and incur significant costs in defending against such claims. If any such claims are successful, SM Prime may have to either incur additional costs to settle such third-party claims or surrender title to land that may be material in the context of SM Prime's operations. In addition, title claims made by third parties against SM Prime may have an adverse effect on its reputation.

Furthermore, transfer of title in the Philippines in connection with real estate sales involves a series of registrations and filings, which can require several months to complete. As a result, SM Prime may in some instances occupy, operate or develop properties for which it has not yet completed all formalities in respect of perfecting title. There can be no assurance that third parties will not in the future challenge SM Prime's rights to properties in similar circumstances where title has not yet been perfected.

SM Prime will continue to compete with other mall operators and commercial and residential developers.

SM Prime competes with other developers and operators of shopping malls and other commercial properties and residential properties for tenants, sales customers and land acquisition opportunities, among others.

SM Prime's malls compete with other similar malls. Increased competition could adversely affect income from, and the market values of, the malls. The income from, and market values of, the malls are largely dependent on the ability of the malls to compete against other retail malls in their area in attracting and retaining tenants. In addition, tenants at the malls face increasing competition from specialty stores, general merchandise stores, discount stores, warehouse outlets and street markets, which may affect the ability or willingness of such tenants to continue renewing their leases. Important factors that affect the ability of retail malls to attract or retain tenants include the popularity of the malls with retail customers, which is a function the quality of the malls' existing tenants and the attractiveness of the building and the surrounding area. Attracting and retaining tenants and customers often involves refitting, repairing or making improvements to mechanical and electrical systems and outward appearance. If competing malls of a similar type are built in the areas where the malls are located or similar malls in the vicinity of the malls are substantially updated and refurbished, the value and net income of the malls could be reduced.

SM Prime's income from, and market values of, its residential development projects is largely dependent on these projects' popularity when compared to similar projects in their areas, as well as on the ability of SM Prime to gauge correctly the market for its projects. Important factors that could affect SM Prime's ability to compete effectively include a project's relative location versus that of its competitors, particularly proximity to transportation facilities and commercial centers, as well as the quality of the housing and related facilities offered by SM Prime and the overall attractiveness of the project.

SM Prime's commercial investment property business competes with a number of commercial developers. Competition from other developers of neighboring commercial centers and office spaces may adversely affect SM Prime's ability to operate successfully its investment properties or attract and retain tenants, and continued development by these and other market participants could result in saturation of the market for office space. In addition, SM Prime's major competitors may have greater experience, financial resources and more expertise in developing commercial properties and commercial leasing operations.

SM Prime's future growth and development will also depend, in part, on its ability to acquire or enter into agreements to develop additional tracts of land suitable for the types of mall, residential and commercial real estate projects that SM Prime has developed over the years. SM Prime may experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to SM Prime, particularly parcels of land located in areas surrounding Metro Manila and in other urban areas throughout the Philippines. In the event SM Prime is unable to acquire suitable land at acceptable prices, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

As a result of the foregoing, historical operating results of the malls may not be indicative of future operating results and historical market values of the malls may not be indicative of future market values. A failure by SM Prime to compete effectively against other developers and operators of malls and other commercial properties and residential properties could result in a loss of market share in the relevant sectors and corresponding decreases in revenues from rentals and property sales, which would in turn negatively impact SM Prime's businesses, financial condition and results of operations.

SM Prime is exposed to risks associated with the operation of its mall and commercial businesses.

The operations of SM Prime's malls and commercial businesses are subject to risks relating to the ownership of properties for lease and the management of mall and commercial tenants. The performance of SM Prime's malls and commercial properties could be affected by a number of factors, including:

- the national and international economic climate;
- trends in the Philippine commercial and retail industry;
- ability to attract leading names in the retail market to SM Prime's mall and commercial developments;
- ability to anticipate the future technological and infrastructure needs of Business Process Outsourcing ("BPO") tenants and effectively design properties to meet those needs;
- efficiency in collection, property management and tenant relations;

- non-renewal of expiring tenancies;
- amount of disposable income and consumer preference;
- competition for tenants;
- changes in market rental rates;
- the need to periodically renovate, repair and re-let space and the costs thereof;
- the quality and strategy of the management services provided; and
- SM Prime's ability to provide adequate security, maintenance and insurance.

In particular, SM Prime's commercial development projects comprise three office buildings catering primarily to tenants operating in the BPO industry. Adverse trends in the Philippines BPO industry and competitive environment could result in the inability of existing BPO tenants to honor their lease commitments, as well as lower demand among potential BPO clients for vacant space.

If SM Prime is unable to lease its mall and commercial properties in a timely manner or collect rent at profitable rates or at all, this could materially and adversely affect SM Prime's business, financial condition and results of operations.

SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses.

SM Prime's operations include the development and sale of residential properties and the development and lease of office and commercial properties. The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that SM Prime may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales or rentals at the expected take-up rate and which may not yield target returns as anticipated. In addition, obtaining required approvals and permits from various Philippine regulatory agencies may take substantially more time and resources than anticipated and construction of projects may not be completed on schedule or within budget.

The time and the costs involved in completing the development and construction of projects can be adversely affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in Government priorities and other unforeseen problems or circumstances. Any of these factors could result in project delays and cost overruns, which could negatively affect SM Prime's margins.

SM Prime's reputation could also be adversely affected if projects are not completed on time or if projects do not meet customers' requirements. If any of SM Prime's projects experiences construction or infrastructure failures, design flaws, significant project delays, quality control issues or otherwise, this could negatively affect its brand image and its ability to pre-sell its residential development projects. This would reduce cash flow and impair its ability to meet funding requirements.

Project delays, cost overruns and construction issues could also result in sales and resulting profits from a particular development not being recognized in the year in which it was originally expected to be recognized, which could adversely affect SM Prime's results of operations. Further, the failure by SM Prime to complete construction of a project to its planned specifications or schedule may result in cost overruns and possible abandonment of projects by contractors, as well as lower returns. Moreover, orders of the Philippine Department of Agrarian Reform (the "DAR") allowing conversion of agricultural land for development may require a project to complete construction by a prescribed deadline. If SM Prime fails to complete construction of a project by the stated deadline, the DAR may revoke its order allowing the use of agricultural land for SM Prime's intended purpose.

Property development in the Philippines is capital intensive, and the necessary funding may not be available.

The real estate industry in the Philippines is capital intensive, and market players are required to incur significant capital expenditures to complete existing projects and commence construction on new developments. Although historically SM Prime has funded a significant portion of its capital expenditure requirements internally from real estate revenues, it has periodically utilized external sources of financing. There can be no assurance that, to complete current and future malls and other commercial and residential projects or satisfy other liquidity and capital resources requirements, SM Prime will be able to continue funding its capital expenditure requirements internally, or that it will be able to obtain sufficient funds externally at acceptable rates to fund its capital expenditure budgets, or at all. Failure to obtain the requisite funds could delay or prevent completion of projects and materially and adversely affect SM Prime's businesses, financial condition and results of operations.

Malls and other commercial properties owned by SM Prime may be subject to an increase in operating and other expenses.

SM Prime's financial condition and results of operations could be adversely affected if operating and other expenses relating to malls and other commercial properties increase without a corresponding increase in revenues or tenant reimbursements (where applicable) of operating and other expenses. Factors which could increase operating and other expenses include:

- increases in utility expenses;
- increases in payroll expenses;
- increases in property taxes and other statutory charges;
- increases in the rate of inflation;
- changes in the rate and expense of depreciation and amortization;
- changes in statutory laws, regulations or Government policies that increase the cost of compliance with such laws, regulations or policies;
- increases in management fees or sub-contracted service costs, such as maintenance and security;
- increases in insurance premiums; and
- defects affecting the malls which need to be rectified, leading to unforeseen capital expenditure.

Increased expenses resulting from the foregoing or other factors, to the extent not compensated by corresponding increases in revenues, could have a material adverse effect on SM Prime's businesses, financial condition and results of operations.

SM Prime faces risks relating to the management of its land bank.

SM Prime will need to acquire land for replacement and expansion of land inventory within its current markets. However, it may not be possible to acquire land in suitable locations and on commercially reasonable terms. These challenges are exacerbated by the highly competitive real estate industry in Metro Manila and its surrounding areas, where SM Prime competes with other real estate companies, some of which may have more resources than SM Prime, for land acquisition and the right to participate in land reclamation projects. There can be no assurance of reaching agreement in respect of the lease or purchase of any specific property or properties. In the event that SM Prime is unable to acquire suitable land, its growth prospects could be limited.

The risks inherent in purchasing and developing land increase as consumer demand for residential real estate decreases. The market value of land, subdivision lots and housing inventories can fluctuate significantly as a result of changing market conditions. There can be no assurance that measures employed to manage land inventory risks will be successful. In the event of significant changes in economic, political or market conditions, SM Prime may have to sell subdivision lots and housing and condominium units at significantly lower margins or at a loss. Changes in economic or market conditions may also require SM Prime to defer the commencement of housing and land development projects, which would require carrying the cost of acquired but undeveloped land on-balance sheet, as well as reducing the amount of property available for sale. Any of the foregoing events would have a material adverse effect on SM Prime's business, financial condition and results of operations.

SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines.

The Philippines property development industry is highly regulated. The development of condominium, subdivision and other residential projects, commercial projects and land reclamation projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land, must get clearance from the DAR so that the land can be reclassified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at a developer's expense. Presidential Decree No. 957, as amended, ("P.D. 957"), Republic Act No. 4726, as amended, ("R.A. 4726"), Republic Act No. 6552 (the "Maceda Law") and Batas Pambansa Blg. 220 ("B.P. 220") are the principal statutes which regulate the development and sale of real property as part of a condominium or subdivision project. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law governs the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes. Regulations applicable to SM Prime's operations include among others:

- the suitability of the site;
- road access;
- necessary community facilities;
- open spaces and common areas;
- water supply;
- sewage disposal systems;
- electricity supply; and
- unit/lot sizes.

Since 2008, HLURB has required all property developers in the Philippines to partake in the development of socialized housing projects. Under Section 18 of the Republic Act No. 7279, developers of subdivision projects are required to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by HLURB and other existing laws. Property developers are not allowed to buy credits from property firms already involved in socialized housing development, rather, they are required to comply with the rule by participating in: a) development of settlement; b) slum upgrading or renewal of areas for priority development either through zone improvement programs or slum improvement and resettlement programs; c) joint venture projects with either local government units ("LGUs") or any of the housing agencies; or d) participation in the community mortgage program. If SM Prime does not comply with this requirement, it may be subject to fines or other sanctions which would adversely impact its business and results of operations.

All condominium and subdivision development plans are also required to be filed with and approved by the LGU with jurisdiction over the area where the project is located. Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also require prior approval of the relevant LGU.

There can be no assurance that SM Prime will be able to obtain governmental approvals for its projects or that, when given, such approvals will not be revoked.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units. Project permits and any license to sell may be suspended, cancelled or revoked by HLURB based on its own findings or upon complaint from an interested party, and there can be no assurance that SM Prime will in all circumstances receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect SM Prime's ability to complete projects on time, within budget or at all, and could materially and adversely affect SM Prime's business, financial condition and results of operations.

SM Prime may suffer material losses in excess of insurance proceeds.

SM Prime's portfolio of malls, residential properties and other real estate assets could suffer physical damage caused by fire, flooding, typhoons, earthquakes or other causes, or third-party liability claims, any of which could result in losses (including loss of rent) which may not be fully compensated for by insurance. SM Prime may also be exposed to liability for damages or injuries from accidents occurring on its properties. In addition, certain types of risks and insurance cover (such as war risk and acts of terrorism) may be uninsurable or the cost of insurance may be prohibitive when compared to the risk. Should an uninsured loss or a loss in excess of insured limits occur, SM Prime could lose capital invested in the affected property as well as any anticipated future revenue from such property, and may also remain liable for any debt or other financial obligation related to such property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

The Group faces property development risk

The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risks that Government approvals may take more time and resources to obtain than expected; that construction may not be completed on schedule or budget; and that the properties may not achieve anticipated sales, rents or occupancy levels.

In addition, development projects typically require substantial capital expenditure during construction and it may take years before property projects generate cash flows. There is the risk that financing for development may not be available under favorable terms, or that construction may not be completed on schedule or within budget. The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labor; adverse weather conditions; natural disasters; labor disputes with contractors and subcontractors; accidents; changes in Government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized, which could adversely affect the Group's profits recognized for that year. Further, the failure by any Group company to complete construction of a project to its planned specifications or schedule may result in liabilities, reduced project efficiency and lower returns. No assurance can be given that such events will not occur in a manner that would adversely affect the results of operations or financial condition of the Group.

Furthermore, properties presently in the name of the Group or those acquired in the future may be subject to various lawsuits and/or claims, which, if resolved against the Group, will result in the loss or reduction in size of the particular property subject of the lawsuit. Currently, certain properties of the Group such as but not limited to those in Taal Vista Lodge and Baguio City are subject to such lawsuits, pending hearing in various courts and/or before governmental bodies. See "Description of the Issuer and the Group — Legal Proceedings".

To mitigate these risks, the Group ensures that its project developments are carefully planned. The companies rely on the services of reputable, high quality, independent contractors for their projects and maintains good business relationships with these contractors. The companies adheres to the strategy of developing each project in phases to minimize exposure to such risks. Further, each company keeps within a conservative level of leverage. Although the current liquidity and depth of the Philippine credit market renders funding risk as unlikely, the companies have unutilized credit lines as buffer for unanticipated requirements. The companies also ensure that all required governmental approvals are obtained and keep updated on any developments in regulations concerning the real estate industry.

Risks Relating to the Retail Operations

The success of the Retail Subsidiaries and Retail Affiliates will be dependent in part on the Issuer's continued ability to satisfy consumer preferences and spending trends in the markets in which the Retail Subsidiaries operate

The success of the Retail Subsidiaries partially depends on their ability to anticipate and respond to changing consumer preferences in a timely manner. However, it is often difficult to predict changes in consumer preferences, particularly in the area of apparel where fashion trends can be subject to rapid change. SM Department Stores carry a wide selection of basic merchandise which may be less subject to fashion trends. The SM Department Stores believe they lead mass-market fashion trends in the Philippines by introducing apparel that has proved popular in places such as Hong Kong and Taiwan, as well as the United States. The SM Department Stores also tend to introduce more mainstream apparel fashion compared to that introduced by other retailers. Nevertheless, there can be no assurance that consumers in the Philippines will continue to prefer shopping in department stores over other retail formats such as specialty stores. Furthermore, the Retail Subsidiaries depend to a significant extent on Philippine spending trends. The sentiments of the Philippine retail industry, consumer preferences and spending patterns are influenced by external factors including, among others, the state of the Philippine economy and its political environment, the disposable income of Philippine consumers and the market's demographic profile. Failure to accurately predict constantly changing consumer tastes, preferences and spending patterns could adversely affect the short- and long-term results of the Retail Subsidiaries.

While the Group regularly conducts market research to forecast changes in consumer preferences, and reviews the performance and viability of its portfolio of brands to ensure continued market acceptance, there is no assurance that its efforts can prepare it adequately to meet changing consumer preferences or spending habits. An inaccurate assessment of, or an untimely response to, changing consumer preferences could have a material adverse effect on the Issuer's financial condition and results of operations.

The Group believes that its focus on quality, variety and value-for-money is its main competitive advantage. It is the objective of the SM Department Stores to maintain its leadership in the marketplace, to be at the forefront of retail technology, and to grow through effective consumer marketing and product diversification. The SM Department Stores' strategies involve providing value-for-money through their wide variety of competitively priced quality merchandise, thereby achieving high sales turnover. The Group's supermarkets carry extensive lines of both local and imported food and household products sourced from a diversified group of suppliers. Furthermore, the Group continuously upgrades its retail facilities to keep up with the prevailing trends in the department store business.

The Retail Subsidiaries depend on their ability to retain existing suppliers and secure new suppliers

The Retail Subsidiaries have developed close relationships with a large number of suppliers in the Philippines. However, they do not have any long-term supply agreements with any supplier. The Retail

Subsidiaries seek to source their outright merchandise from a broad range of suppliers at competitive prices, and the Issuer continues to source merchandise from new suppliers to cover larger areas within its department stores and to respond to changes in consumer preference. A significant adverse change in the relationships and contract arrangements between the Retail Subsidiaries and consignors could also have a material adverse impact on the Issuer's financial condition and results of operations.

The Group's suppliers are treated as partners in business. The Group ensures that its business partners' receivables are settled on time, and strives to continuously maintain good and close relationships with its suppliers. At the same time, the Retail Subsidiaries are constantly in search for good and reliable suppliers.

Non-renewal of leases or substantial increases in rent for the Issuer's retail stores may have a material adverse effect on the Issuer

Some of the retail space in which the Issuer's retail stores are located is leased from independent third parties. There is no assurance that each of these leases will be renewed upon expiry or on terms and conditions that are acceptable to the Issuer. If such leases cannot be extended or renewed, the Issuer will have to find other appropriate premises and this may have a material adverse effect on its business, financial condition and results of operations if the new premises are not as appropriate to the Issuer's needs as the existing leased premises. Alternatively, if the existing leases can only be renewed on less favorable terms, this will increase the Issuer's operating expenses and thus its business, financial condition and results of operations may be materially and adversely affected.

The majority of the Group's retail facilities are located in its Malls owned by the Group. Those facilities located in properties not owned by the Group have renewable long-term lease contracts.

The future growth of the Retail Subsidiaries will be largely driven by the effectiveness and success of their expansion strategy

The expansion strategy of the Retail Subsidiaries involves opening new stores as well as renovating and expanding existing stores. The successful implementation of such expansion plans depends upon many factors, including the Issuer's ability to:

- identify, negotiate, finance, obtain, lease or refurbish suitable store sites which may also be largely dependent on the expansion plans of SM Prime;
- integrate new stores into existing information systems and operations;
- hire, train and retain qualified personnel; and
- manage the diversion of resources.

The Issuer cannot guarantee that the Retail Subsidiaries will achieve their targets for opening new stores or for renovating or expanding existing stores, or that such stores will operate profitably when opened. Failure by the Retail Subsidiaries to implement their expansion strategy effectively could materially and adversely affect their business, financial condition and results of operations, and thereby materially and adversely affect the Issuer's financial condition and results of operations.

The Group's expansion strategy involves the identification of strategic locations for the Retail Subsidiaries. Also, in each Mall owned by the Group, the Retail Subsidiaries are actively involved. In addition, the Group's strategy requires that the necessary management for expanded operations, as well as viable financing plans for these expansions, are well in place prior to any store opening.

The Retail Subsidiaries and Retail Affiliates may be subject to increasing competitive pressures

The Retail Subsidiaries are among the leading participants in the Philippine retail industry with a significant market share in department store and supermarket sales. There are few barriers to prevent new participants, including major international retailers or wholesalers who are ready to invest the necessary time and resources, from entering the retail industry. If an existing or new competitor in the market is successful in developing and marketing a retail concept that is comparable or more acceptable to the market, the Issuer's market share in the relevant market segment will decline and this may result in its future turnover and profitability being adversely affected.

The Retail Trade Liberalization Act, approved by the Government in March 2000, liberalizes foreign ownership restrictions in the retail sector and may encourage industry consolidation and greater competition. Any increase in competition could have an adverse effect on the operations of the Retail Subsidiaries in future periods, including, for instance, slower growth in their sales, lower margins and higher expenses as they seek to compete for new business or in new markets. See "Description of the Issuer and the Group - Retailing and Merchandising".

The Group believes that it has a strong franchise in the retail market due to its goodwill, locations, and strategy of regularly diversifying its product mix, upgrading its stores and facilities, and maintaining a diversified group of suppliers.

There can be no assurance that the Retail Subsidiaries are fully insured against unexpected losses

The operations of the Retail Subsidiaries carry an inherent risk of loss caused by fire, resulting water damage, disruptions to electricity supply, terrorist attacks and other circumstances or events affecting their stores or the properties where their stores are located. Any such event, if it were to occur, may result in loss of life or property, loss of revenues or increased costs and could potentially result in significant litigation against the Retail Subsidiaries. In line with industry practice in the Philippines, the current insurance coverage does not cover any loss of revenues that the Retail Subsidiaries may suffer as a result of any disruption to their business. Although the Retail Subsidiaries seek to maintain the most comprehensive insurance coverage that is available at commercially reasonable rates, there can be no assurance that their insurance coverage will adequately compensate them for all damage and economic losses resulting from any of the events noted above or that they will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

The Group's existing insurance coverage is sufficient to cover for any possible losses in the Retail Subsidiaries. The Group annually reviews its existing insurance policies to ensure adequacy of coverage. Furthermore, the locations of the retail stores are widely spread throughout the country.

The Retail Subsidiaries' business activities are subject to seasonality and timing

The Retail Subsidiaries' business experiences seasonal fluctuations in its turnover and operating income and generally records higher turnover in December, due to traditionally higher consumer spending around the Christmas season, and May, prior to schools opening in June. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of the Issuer's financial and operating performance. Any seasonal fluctuations reported in the future may not match the expectations of investors.

Since the Issuer's business operates largely on a seasonal cycle, if the Retail Subsidiaries' business is unsuccessful in selecting the right product mix for a particular season, sales for that entire season could be significantly affected. In addition, any consequent reputational damage could have a negative impact on the Retail Subsidiaries' business sales in future seasons. The Issuer's results of operations may also fluctuate significantly as a result of a number of other factors, including, but not limited to, the timing of opening of new stores, merchandise mix and the timing of advertising and promotional campaigns depending on each season.

The Group believes that seasonality is typical in the retail industry. The Group therefore focuses on providing the correct product mix and maintaining its leadership in determining consumer preferences and upcoming product trends.

The supermarket and hypermarket industry is highly competitive and characterized by narrow profit margins

The supermarket and hypermarket industry is highly competitive and characterized by narrow profit margins. The Issuer's competitors include national and regional supermarket and hypermarket chains, independent and specialty grocers, drug and convenience stores, warehouse club stores, deep discount drug stores and supercenters. Supermarket and hypermarket chains and SaveMore stores generally compete on the basis of location, quality of products, service, price, product variety and store condition. The Issuer regularly monitors its competitors' prices and adjusts its prices and marketing strategy as management deems appropriate in light of existing conditions. There can be no assurance that new competitors will not enter the supermarket and hypermarket industry or that the Issuer can maintain its current market share. The Issuer's profitability could be impacted by the pricing, purchasing, financing, advertising or promotional decisions made by competitors.

Narrow profit margins are typical in the supermarket and hypermarket industries. Thus, the Group continuously expands its operations to increase volume turnover and enhance economies of scale, thereby improving the profitability of its supermarket and hypermarket operations.

As a result of selling food products, the Group faces the risk of exposure to product liability claims and adverse publicity

The packaging, marketing, distribution and sale of food products purchased from others entail an inherent risk of product liability, product recall and resultant adverse publicity. Such products may contain contaminants that may be inadvertently redistributed by SM Supermarkets, SM Hypermarkets and SaveMore. These contaminants may, in certain cases, result in illness, injury or death if processing at the foodservice or consumer level does not eliminate the contaminants. Even an inadvertent shipment of adulterated products is a violation of law and may lead to an increased risk of exposure to product liability claims. There can be no assurance that such claims will not be asserted against the Group or that the Group will not be obliged to perform such a recall in the future. If a product liability claim is successful, the Group's insurance may not be adequate to cover all liabilities it may incur, and it may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If the Group does not have adequate insurance or contractual indemnification available, product liability claims relating to defective products could have a material adverse effect on the Group's ability to successfully market its products and on the Group's business, financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the Group's products caused illness or injury could have a material adverse effect on the Group's reputation with existing and potential customers and on the Group's business, financial condition and results of operations.

The Group's typical insurance coverage includes potential losses from product liability claims. In addition, the Group actively selects appropriate suppliers which are carefully evaluated as reliable in providing quality products.

Risks Relating to the Banks

The Philippine banking industry is highly competitive and increasing competition may result

in declining margins in the banks' principal businesses

BDO and China Bank are subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the banks.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. In addition, the proposed ASEAN economic integration by 2015 envisions freer cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of May 6, 2013, according to data from the BSP, there were a total of 36 domestic and foreign commercial banks operating in the Philippines.

In the future, BDO and China Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the banks. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- Continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

There can be no assurance that BDO and China Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the banks to continue to increase the size of their loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on their growth plans, margins, results of operations and financial condition.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product ("GDP") of the Philippines; and
- Volatility of interest rates and US Dollar/Philippine Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including BDO and China Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on BDO's and China Bank's financial condition, liquidity and results of operations. Average non-performing loan ratios exclusive of interbank loans in the Philippine banking system were 3.1%, 2.4% and 2.0%, as at the years ended 31 December 2010, 2011 and 2012, respectively.

Philippine bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including BDO and China Bank, may be incomplete or obsolete. BDO and China Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, their ability to assess, monitor and manage risks inherent in their business would not meet the standards of their counterparts in more developed countries. If BDO and China Bank are unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on their ability to manage these risks and on their financial condition, liquidity and results of operations.

However, BSP's early adoption of Basel III on 1 January 2014, a year ahead of the Basel Committee's recommended implementation timeline, as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards are seen as efforts to further boost the Philippine banking industry's resiliency and enhance its ability to absorb risks.

Philippine banks face regulatory pressure to comply with new capital standards

The BSP Monetary Board approved major revisions to the country's risk-based capital adequacy framework on 1 July 2007, to align the current framework with the Basel II standards as issued by the Basel Committee on Banking Supervision (BCBS), which is an international committee of banking supervisory authorities. Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks financial institutions are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitization exposures, counterparty risk in the trading book, and operational risk.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments.

To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective 1 January 2011.
In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to

January 2017. On 26 December 2012, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for Common Equity Tier 1 (CET1) capital and Tier 1 (T1) capital in addition to the Capital Adequacy Ratio (CAR). The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum T1 ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital will be derecognized from the determination of the regulatory capital on 1 January 2014.

Risks Relating to the Philippines

Substantially all of the Group's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially adversely affect its businesses

Historically, the Group has derived a large majority of its revenue and operating profits from the Philippines and, as such, is highly dependent on the state of the Philippine economy. Demand for retail, commercial and residential real estate are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines, as well as the amount of remittances received from OFWs and overseas Filipinos.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government or of the Government's fiscal and regulatory policies;
- re-emergence of SARS, avian influenza (commonly known as bird flu), including the H1N1 and H7N9 strains of the disease, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition and results of operations.

Any political instability in the future may have a negative effect on the Group's financial results

The Philippines has from time to time experienced political, social and economic instability. In May 2004, the Philippines held presidential elections as well as elections for the Senate and the House of Representatives. President Macapagal-Arroyo was elected for a second six-year term. However, certain opposition candidates questioned the election results, alleging massive fraud and disenfranchisement of voters. On 25 July 2005, the impeachment complaints that were filed by several citizens and opposition lawmakers in the House of Representatives against President Arroyo, based on the allegations of culpable violation of the Constitution, graft and corruption and betrayal of the public trust, were referred by the speaker of the House to the Committee on Justice. All impeachment complaints previously filed were ultimately dismissed; however several cases were filed with the Supreme Court questioning the constitutionality of the decision.

On 24 February 2006, President Arroyo declared a state of emergency after security forces thwarted what they claimed was a plot to overthrow the President. The purported coup d'etat coincided with demonstrations marking the 20th anniversary of the "people power" revolution that toppled former President Marcos. The President lifted the state of emergency on 3 March 2006.

In November 2007, a group of military rebels together with a senator walked out of their trial in Makati City and occupied the second floor of the Manila Peninsula Hotel calling for President Arroyo to resign. They were soon joined by a few church officials and former Vice President Teofisto Guingona who appealed to the public for support. After a few hours, the mutinous group agreed to surrender to avoid bloodshed.

Since 2007 the Philippine Senate has been conducting inquiries into the allegedly anomalous US$329 million deal to construct the National Broadband Network. In February 2008, former Philippine Forest Corporation president Rodolfo Noel Lozada Jr. testified in the Senate and accused key allies of President Arroyo of overpricing the deal and receiving and/or demanding hefty commissions for the implementation of said deal. The controversy fuelled mass protests by various cause-oriented groups calling for the President to resign. The implementation of the project, in the meantime, has been suspended.

In 2008, the Philippine Senate resumed its Blue Ribbon Committee inquiry into allegedly anomalous disbursements of ₱780 million for the purchase of fertilizers by the Department of Agriculture and alleged diversion of said funds to finance the 2004 election of President Arroyo.

In May 2010, the Philippines held its very first automated presidential election, as well as elections for members of the Senate and the Congress. Consequently, Benigno Aquino III was elected as the new President of the Philippines, with effect on 30 June 2010.

In December 2011, the 23rd Chief Justice of the Supreme Court of the Philippines, Renato Corona, was impeached by the House of Representatives. The Senate, convened as an impeachment court, began the trial in January 2012 and consequently found Corona guilty of Article II of the Articles of Impeachment filed against him pertaining to his failure to disclose to the public his statement of assets, liabilities, and net worth.

On May 31, 2012, the Philippine Senate impeached Renato Corona, then Chief Justice of the Supreme Court of the Philippines. The impeachment trial, which lasted several months, tried Corona on accusations of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials.

Although there can be no assurance that President Aquino will continue to implement the economic, development and regulatory policies favoured by President Arroyo's administration, including those policies that have a direct effect on the Group's assets and operations, President Aquino's administration has already taken steps towards economic reforms, such as raising government revenues by curbing tax evasion and other forms of corruption.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future Governments will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Group. In addition, such adverse factors may affect the Philippine tourism industry, which is the focus of one element of the Group's growth strategy.

Historically, the Group has remained apolitical and cooperates with the country's duly constituted government. The Group supports and contributes to nation-building.

SM Group's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been responsible for kidnapping and terrorist activities in the Philippines, and is alleged to have ties to the Al-Qaeda terrorist network. There have also been sporadic bombings and prominent kidnappings and slayings of foreigners in the Philippines, including the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Group's business. The Group's current insurance policies do not cover terrorist attacks. Any terrorist attack or violent acts arising from, and leading to, instability and unrest, could cause interruption to parts of the Group's businesses and materially and adversely affect the Group's financial conditions, results of operations and prospects.

Metro Manila has experienced severe natural disasters, and authorities may not be prepared or equipped to respond to such disasters. On September 26, 2009, Typhoon Ondoy resulted in 341.3 millimeters of rainfall in six hours, causing massive flooding that submerged several areas of Metro Manila and adjacent provinces. The typhoon caused 464 deaths and approximately ₱86 billion in property damage. On August 6, 2012, a monsoon hit Metro Manila and other nearby provinces which also caused severe flooding and landslides. Other calamities that have affected Metro Manila in recent years include unusually strong earthquakes and outbreaks of infectious diseases such as H1N1 influenza (commonly known as swine flu).

Other regions of the Philippines have also experienced severe natural disasters. In December 2011, Typhoon Sendong caused massive flooding in the southern Philippine city of Cagayan de Oro, claiming thousands of lives and displacing tens of thousands of residents. On December 3, 2012, Typhoon Bopha struck the southern island of Mindanao as a category five typhoon, triggering widespread flash flooding and landslides throughout the region. Typhoon Bopha killed over 1,000 people and caused an estimated ₱42 billion in property damage.

In October 2013, an earthquake occurred in Central Visayas, Philippines. The magnitude of the earthquake was recorded at Mw 7.2, at the epicenter which was located six kilometers southwest of Sagbayan town, at a depth of 12 kilometers. The seismic event affected the whole Central Visayas region, particularly Bohol and Cebu. According to recent official reports by the National Disaster Risk Reduction and Management Council, 198 people were reported dead, 11 were missing, and 651 were injured as a result of the earthquake, making it the deadliest earthquake in the Philippines in 23 years. In all, more than 53,000 structures were damaged or destroyed, including commercial buildings, malls, public edifices, hotels and churches. SM Prime's Radisson Blu Cebu sustained cosmetic damages on tiles and walls, however, the structural integrity of the building has been certified by three structural engineering companies. As a result, total business lost was estimated at approximately ₱60 million and forecasted year end occupancy of 74% had dropped to 66%.

In addition, the Central Philippines experienced a severe typhoon, Typhoon Haiyan (Yolanda), in November 2013 which caused extensive damage and claimed thousands of lives. The typhoon is expected to have a significant effect on the Philippine economy, which may, among other things, lead to an increase in inflation, a decrease in the pace of economic growth and/or a reduction in consumer spending, all of which would have an adverse effect on the Group's results of operations.

It is not possible to predict the extent to which the Group's various businesses will be affected by any future occurrences such as those described above or fears that such occurrences will take place, and there can be no assurance that any disruption to its businesses will not be protracted, that property will not be damaged and that any such damage will be completely covered by insurance or at all. Any such occurrences may disrupt the operations of the Group's businesses and could materially and adversely affect their business, financial condition and results of operations. Further, any such occurrences may also destabilize the Philippine economy and business environment, which could also materially and adversely affect the Group's financial position and results of operations.

Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect the Group's businesses

During the last decade, the Philippine economy has from time to time experienced volatility in the value of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. Since 30 June 1997, the Peso experienced periods of significant depreciation and declined from approximately ₱29.00 = U.S.$1.00 in July 1997 to a low of ₱49.90 = U.S.$1.00 for the month ended (period average) December 2000. In recent years, the Peso has generally appreciated and the exchange rate (period average) was ₱43.31 in 2011, ₱42.23 in 2012 and ₱42.45 in 2013.

The revenues of the Group are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in currencies other than Pesos. Certain of the Group's borrowings are denominated in US dollars and China renminbi and accordingly the Group is exposed to fluctuations in the Peso to US dollar and other foreign currency exchange rates. A depreciation of the Peso against the US dollar and other foreign currencies will increase the amount of Peso revenue required to service foreign currency denominated debt obligations.

There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and on the Group's businesses.

In addition, changes in currency exchange rates may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and increased cost of funds. The foregoing consequences, if they occur, would have a material adverse effect on the Group's financial condition, liquidity and results of operations.

As a policy, the Group does not engage in foreign currency speculation. Furthermore, the Group minimizes foreign exchange exposure and fully hedges its foreign currency liabilities.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

While a principal objective of the Philippine securities laws, SEC regulations and PSE disclosure rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the United States and other countries. The Philippines securities market is generally subject to less strict regulatory oversight than securities markets in more developed countries. Improper trading activities could affect the value of securities and concerns about inadequate investor protection may limit participation by foreign investors in the Philippine securities market. Furthermore, although the Issuer complies with the requirements of the SEC and PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Issuer to have at least two independent directors or such number of independent directors as is equal to 20% of the Board, whichever is the lower number. The Issuer currently has three independent directors. Many other jurisdictions require significantly more independent directors.

As a policy, the Group adheres to international standards of corporate governance and disclosure. The Group has hired a Vice President for Corporate Governance to formulate policies and monitor compliance thereof, as well as a consultant at the Board level. The Group has received numerous awards for good corporate governance from international publications.

Risks Relating to the Bonds

The priority of debt evidenced by a public instrument

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Issuer is aware, none of its debt is evidenced by a public instrument and the Issuer will undertake in the Terms and Conditions of the Bonds and the Trust Indenture Agreement to use its best endeavors not to incur such debt. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of the Issuer.

As a policy, the Group's borrowings are clean and are not collateralized by its assets, except for debts that are required by law to be secured.

An active trading market for the Bonds may not develop

The Bonds are a new issue of securities for which there is currently no trading market. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. Although the Bonds are intended to be listed on PDEx as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds will develop and, if such a market were to develop the Joint Issue Managers are under no obligations to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Bonds is highly dependent on the bondholders. The Group actively cooperates in efforts aimed at improving the capital markets in the Philippines.

The Issuer may be unable to redeem the Bonds

At maturity, the Issuer will be required to redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Issuer would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Group.

The Group has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Group believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, without the Over-subscription Option (after deduction of commissions and expenses) are approximately ₱9,918.36 million and are presently intended to be used by the Issuer to refinance existing debt obligations and finance expansion projects. Assuming the Over-subscription Option of up to ₱5,000,000,000.00 is fully exercised, the Company expects total net proceeds of approximately ₱14,883.36 million after fees, commissions and expenses.

Net proceeds from the Offering are estimated to be at least as follows:

For a ₱10.0 billion Issue Size		
		Total
Estimated proceeds from the sale of Bonds		₱10,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	50,000,000.00	
SEC Registration		
SEC Registration Fee and Legal Research	4,355,625.00	
SEC Publication Fee	100,000.00	
Underwriting and Other Professional Fees		
Underwriting and Legal Fee	20,650,000.00	
Rating Fee	4,200,000.00	
Listing Application Fee	224,000.00	
Listing Maintenance Fee	336,000.00	
Printing Cost	300,000.00	
Trustee Fees	130,000.00	
Paying Agency and Registry Fees	848,000.00	
Miscellaneous fees	500,000.00	81,643,625.00
Estimated net proceeds for ₱10.0 billion Issue		₱9,918,356,375.00
For the ₱5.0 billion Over-Subscription Option		
		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	25,000,000.00	
Underwriting Fees	10,000,000.00	35,000,000.00
Estimated net proceeds for ₱5.0 billion Over-Subscription Option		₱4,965,000,000.00

Total Net Proceeds (inclusive of Over-Subscription Option of ₱5.0 billion) --- ₱14,883,356,375

Aside from the foregoing one-time costs, SMIC expects the following annual expenses related to the Bonds:

1. The Issuer will be charged the first year Annual Maintenance Fee in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱130,000 per annum; and,
3. After the Issue Date, a Paying Agency fee amounting to **₱[•]** is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.

The net proceeds of the Issue shall be used primarily to refinance existing debt obligations of the Issuer and to finance expansion projects as set out below.

Schedule of Disbursement	
(in million ₱)	**2014**
Refinance existing debt	14,440
SM Arena project	150
Asinan project	310
	14,900

Pending the above uses, the Company intends to invest the net proceeds from the Issue in short- and medium-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

The Company undertakes that it will not use the net proceeds from the Issue for any purpose, other than as discussed above. However, the Company's plans may change, based on factors including changing macroeconomic and market conditions, or new information regarding the cost or feasibility of these plans. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to reallocate the net proceeds within the categories described above, or to alter its plans, including modifying the projects described in the foregoing and/or pursuing different projects. In the event of any substantial deviation/adjustment in the planned uses of proceeds, the Company shall inform the SEC and the stockholders within 30 days prior to its utilization.

DETERMINATION OF THE OFFER PRICE

The Bonds shall be issued at 100% of principal amount or face value.

PLAN OF DISTRIBUTION

BDO Capital, **[•]**, **[•]** pursuant to an Underwriting Agreement with SMIC executed on **[•]** (the "Underwriting Agreement"), have agreed to act as the Underwriters for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite up to ₱**[**•10,000,000,000.00**]** on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses, with a ₱5,000,000,000.00 Over-subscription Option.

Each of the Underwriters has committed to underwrite the Offer on a firm basis up to the amount indicated below:

Joint Lead Underwriters	**Amount**
BDO Capital & Investment Corporation	**[•]**
[•]	**[•]**
[•]	**[•]**

The Joint Lead Underwriters shall have exclusive rights and priority to exercise the Over-subscription Option of up to Five Billion Pesos (₱5,000,000,000.00).

There is no arrangement for the Underwriters to return to SMIC any unsold Bonds. The Underwriting Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Bonds being made to SMIC. There is no arrangement as well giving the Underwriters the right to designate or nominate any member to the Board of SMIC.

SMIC will pay the Joint Lead Underwriters a fee of 0.20% on the final aggregate nominal principal amount of the Bonds issued, which is inclusive of the fee to be ceded to Participating Underwriters. No fees will be given to Broker-Dealers selling the Bonds.

The Underwriters are duly licensed by the SEC to engage in underwriting and distribution of securities to the public. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of business with SMIC or other members of the Group.

BDO Capital is the wholly-owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the Group. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

[•]

Except for BDO Capital which is an associatee of the Issuer, the other Joint Lead Underwriters, namely **[•]** have no direct relations with SMIC in terms of ownership. The Underwriters have no right to designate or nominate any member of the Board of SMIC.

Sale and Distribution

The distribution and sale of the Bonds shall be undertaken by the Underwriters who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Underwriters from purchasing the Bonds for their own respective accounts.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The obligations of each of the Underwriters will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

Offer Period

The Offer Period shall commence at 9:00 am of **[•]**, and end at 12:00 pm of **[•]**.

Application to Purchase

Applicants may purchase the Bonds during the Offer Period by submitting to the Underwriters properly completed Applications to Purchase, together with two signature cards, and the full payment of the purchase price of the Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments, a photocopy of any one of the following valid identification cards (ID), subject to verification with the original ID: passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed from, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the duly-accepted tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by SMIC. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

Minimum Purchase

A minimum purchase of Twenty Thousand Pesos (₱20,000.00) for each series of the Bonds shall be considered for acceptance. Purchases for each series of the Bonds in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000.00) for each series.

Allotment of the Bonds

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to SMIC's exercise of its right of rejection.

Acceptance of Applications

SMIC and the Joint Lead Underwriters reserve the right to accept or reject applications to purchase the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate.

Refunds

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the relevant Underwriter with whom such application to purchase the Bonds was made.

Payments

The Paying Agent shall open and maintain a Payment Account, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Paying Agency and Registry Agreement, provided that beneficial ownership of the Payment Account shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the relevant interest and principal on each Payment Date.

The Paying Agent shall maintain the Payment Account for six (6) months from Maturity Date or date of early redemption. Upon closure of the Payment Account, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments.

Purchase and Cancellation

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Secondary Market

SMIC intends to list the Bonds in the PDEx. SMIC may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

Registry of Bondholders

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable prevailing Philippine selling restrictions. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of SMIC, the information contained in this Prospectus, the Trust Indenture Agreement, Underwriting Agreement, and other agreements relevant to the Offer.

The issue of up to ₱10,000,000,000.00 aggregate principal amount of **[•]**% per annum Series E Bonds and **[•]**% per annum Series F Bonds with an oversubscription option of up to ₱5,000,000,000.00 was authorized by a resolution of the Board of Directors of SMIC dated 17 February 2014. The Bonds shall be constituted by a Trust Indenture Agreement executed on **[•]** (the "Trust Agreement") entered into between the Issuer and Philippine National Bank Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on **[•]** (the "Registry and Paying Agency Agreement") in relation to the Bonds among the Issuer, Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the respective Maturity Dates of the Series E and Series F Bonds, unless SMIC exercises its early redemption option according to the conditions therefore. See "Description of the Bonds — Redemption and Purchase".

The Registrar and Paying Agent has no interest in or relation to SMIC which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to SMIC which may conflict with its role as Trustee for the Bonds.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Paying Agency and Registry Agreement applicable to them.

Form, Denomination and Title

Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Twenty Thousand Pesos (₱20,000.00) each as a minimum, in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

Title

Legal title to the Bonds shall be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

Bond Rating

The Bonds have been rated PRS **[•]** by PhilRatings, having considered SMIC's diversified business portfolio, business plans, growth prospects and cash flows. A rating of PRS **[•]** is assigned to long-term debt securities with the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and repayment of principal is secured. A rating of PRS Aaa is the highest credit rating on PhilRatings' long-term credit rating scale.

The rating was arrived at after considering the following factors: SMIC's diversified business portfolio which includes core companies with strong market positions, sustained earnings, and recurring cash flows; solid brand equity and experienced management team; strong liquidity; and sound capitalization. The ratings also consider the continued positive prospects for the Philippine economy in general, and the industries where the SM Group has primary investments, in particular.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

Transfer of Bonds

Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in this Section on "Interest Payment Dates".

Transfers; Tax Status

The Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Subject to the provisions of the Registry and Paying Agency Agreement, Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-ȧ-vis the transferee.

Should a transfer between Bondholders of different tax status occur on a day, which is not an Interest Payment Date, tax-exempt entities trading with non tax-exempt entities shall be treated as non tax-exempt entities for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement within three days from the settlement date for such transfer. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEx shall be allowed between tax-exempt and non tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds on PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed on PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC.

Ranking

The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations and those preferred by mandatory provisions of law).

Interest

Interest Payment Dates

The Series E Bonds bear interest on its principal amount from and including Issue Date at the rate of **[•]**% p.a., payable semi-annually in arrears starting on **[•]** for the first Interest Payment Date, and on **[•]** and **[•]** of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The Series F Bonds bear interest on its principal amount from and including Issue Date at the rate of **[•]**% p.a., payable semi-annually in arrears starting on **[•]** for the first Interest Payment Date, and on **[•]** and **[•]** of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the "Record Dates"), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

Interest Accrual

Each Bond shall cease to bear interest from and including the Maturity Date, as defined in the discussion on *"Final Redemption"*, below, unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see *"Penalty Interest"* below) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Redemption and Purchase

Final Redemption

Unless previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice) at par plus accrued interest.

Optional Redemption

Prior to final redemption, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, each outstanding series of the Bonds on the tenth (10th) Interest Payment Date of the Series E Bonds and on the fourteenth (14th) Interest Payment Date of the Series F Bonds, respectively (each, an "Optional Redemption Date"). The Issuer shall give not less than thirty (30) nor more than sixty (60) calendar days' prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Interest Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemption shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) one hundred two per cent (102%) of the principal amount; and (ii) accrued interest on the Bonds on the Optional Redemption Date.

Purchase and Cancellation

The Issuer may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances as it refers to the obligations of the Issuer and the rights and interests of the Bondholders under the Trust Indenture Agreement and the Bonds:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations; or

(b) Any provision of the Trust Indenture Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Indenture Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Indenture Agreement or any other related documents; or

(c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. SMIC shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of disbursing payments on the Bonds. In the event the Paying Agent shall be unable or unwilling to act as such, SMIC shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

    (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate;

    (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and

(iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

b) Gross Receipts Tax under Section 121 of the Tax Code;

c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Financial Ratios

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain the following financial ratios:

a) Current Ratio of not less than 0.3:1; and

b) Debt-Equity Ratio of not more than 80:20.

There are no other regulatory ratios that the Issuer is required to comply with.

Negative Pledge

So long as any Bond or coupon remains outstanding (as defined in the Trust Agreement):

(i) the Issuer will not create or permit to subsist any lien upon the whole or any part of its undertaking, assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness;

(ii) the Issuer shall procure that its Material Subsidiaries will not create or permit to subsist any lien upon the whole or any part of any Material Subsidiary's undertaking, assets or revenues present or future to secure any Public Debt or any guarantee of or indemnity in respect of any Public Debt; and

(iii) the Issuer will procure that no other Person creates or permits to subsist any lien or gives any guarantee of, or indemnity upon the whole or any part of the undertaking, assets or revenues present or future of that other Person to secure any Public Debt of the Issuer, or any Material Subsidiary or to secure any guarantee of or indemnity in respect of the Public Debt of the Issuer or any Material Subsidiary unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Indenture Agreement, (a) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by Extraordinary Resolution of the Bondholders

provided that this paragraph shall not apply to liens (aa) arising by operation of law; or (bb) created in respect of Indebtedness (for the avoidance of doubt, including Indebtedness in respect of which there is a preference or priority under Article 2244 of the Civil Code of the Philippines as the same may be amended from time to time) in aggregate principal amount not exceeding 20% of Total Consolidated Assets as determined in the Issuer's latest audited consolidated financial statements; or (cc) created in respect of Hedging Transactions; and unless, at the same time or prior thereto, the Issuer's obligations under the Bonds, the Coupons and the Trust Agreement, (x) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee, or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by Extraordinary Resolution (as defined in the Trust Agreement) of the Bondholders.

Events and Consequences of Default

If any of the following events occurs (the "Events of Default") and is continuing, the Trustee at its discretion may give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

(a) **Payment Default**: there is failure to pay the interest on any of the Bonds within 14 days from the due date for payment; or

(b) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations set out in the Bonds or the Trust Agreement and (except where the Trustee considers, and so notifies in writing to the Issuer, that such default is not capable of remedy, when no such notice or grace period as mentioned below shall be required) such default continues for a period of 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness of the Issuer or any of its Material Subsidiaries or Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries or Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds 20% of the Issuer's Total Consolidated Assets; or

(d) **Judgement, Decree or Order**: a final judgment, decree or order has been entered against the Issuer or any Material Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of 20% of the Issuer's Total Consolidated Assets and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

(e) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against (in the opinion of the Trustee) any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 60 days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of having been so levied, enforced or sued unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently; or

(f) **Security Enforced**: any lien, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within 60 days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of such steps being so taken unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently or

(g) **Insolvency**: the Issuer or any Material Subsidiary (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Material Subsidiary; or

(h) **Winding-up**: an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Material Subsidiary, or the Issuer or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation (i) on terms approved by the Trustee or by a resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary pursuant to a merger of the Material Subsidiary with the Issuer or such other Material Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Material Subsidiary and such surplus assets attributable to the Issuer and/or any other Material Subsidiary are distributed to the Issuer and/or any such other Material Subsidiary; or

(i) **Bankruptcy Proceedings**: proceedings shall have been initiated against the Issuer or any Material Subsidiary under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) unless and for so long as it is being contested in good faith and diligently; or

(j) **Validity**: the Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer, under the Trust Agreement or the Bonds; or

(k) **Expropriation:** any step is taken by any person with a view to the seizure, compulsory acquisition, or expropriation of all or a material part of the assets of the Issuer or any of its Material Subsidiaries; or

(l) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Agreement; or

(m) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs provided that in the case of paragraph (c), (h) and (i) in relation to a Subsidiary or the Material Subsidiary (as the case may be), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in *"Payment Default"* above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 2% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer shall pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Application of Payments

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Agreement and the Paying Agency and Registry Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first,* to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second,* to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; *third,* to the payment of the whole amount then due and unpaid upon the Bonds for principal, and interest, with Penalty Interest; and *fourth,* the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee. The Paying Agent shall render a monthly account of such funds under its control.

Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on *"Ability to File Suit".*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

Substitution

Substitution of the Bonds is not comtemplated.

Trustee; Notices

Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	**[**●Name**]**
	[●Designation**]**
Subject:	SMIC Bonds due 2021 and 2024
	[●]
Facsimile:	**[●]**

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing if transmitted by surface mail; (iii) on date of publication, or; (iv) on date of delivery, for personal delivery.

Binding and Conclusive Nature

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Duties and Responsibilities of the Trustee

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(a) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

(b) None of the provisions contained in the Trust Agreement or Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.

(b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six months (the "*bona fide* Bondholder") may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.

(c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.

(d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

(e) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.

(f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by SMIC.

Successor Trustee

(a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

(b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within 10 days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date, until full payment of the Bonds, a brief report dated December 31 of the immediately preceding year with respect to:

(i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

Inspection of Documents

The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Indenture Agreement
2. Paying Agency and Registry Agreement
3. Articles of Incorporation and By-Laws of the Company
4. Registration Statement of the Company with respect to the Bonds

Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. However, the Trustee shall send notices in respect of any meeting called by SMIC to obtain consent of the Bondholders to an amendment of the Intercreditor Agreement in the following manner: a notice shall be sent to Bondholders detailing the amendments proposed and consents requested by SMIC not earlier than sixty (60) days nor later than forty five (45) days prior to the date fixed for the meeting, if the Bondholder fails to respond as required by such notice, the Trustee shall send a second notice to such Bondholder not later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Indenture Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders except for any meeting called by SMIC solely for the purpose of obtaining the consent of the Bondholders to an amendment of the Intercreditor Agreement, where the failure of any Bondholder to transmit an objection to such proposal of SMIC after at least two (2) notices to such Bondholder have been sent by the Trustee, will be considered by the Trustee as an affirmative vote (and such Bondholder will be considered present for quorum purposes by the Trustee) for the proposal of SMIC.

Procedure for Meetings

(a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Amendments

SMIC and the Trustee may amend these Terms and Conditions or the Bonds without notice to any Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds). However, without the consent of each Bondholder affected thereby, an amendment may not:

(1) reduce the amount of Bondholder that must consent to an amendment or waiver;

(2) reduce the rate of or extend the time for payment of interest on any Bond;

(3) reduce the principal of or extend the Maturity Date of any Bond;

(4) impair the right of any Bondholder to receive payment of principal of and interest on such Holder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;

(5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;

(6) make any Bond payable in money other than that stated in the Bond;

(7) subordinate the Bonds to any other obligation of SMIC;

(8) release any Bond interest that may have been granted in favor of the Holders;

(9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or

(10) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, SMIC shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the section entitled "Notices".

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Indenture Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

INTERESTS OF NAMED EXPERTS

All legal opinion/matters in connection with the issuance of the Bonds which are subject of this Offer shall be passed upon by Picazo Buyco Tan Fider & Santos Law Offices ("Picazo Law"), for the Issue Manager and Joint Lead Underwriters, and SMIC's Legal Division for the Company. Picazo Law has no direct and indirect interest in SMIC. Picazo Law may, from time to time, be engaged by SMIC to advise in its transactions and perform legal services on the same basis that Picazo Law provides such services to its other clients.

Independent Auditors

The Company's results of operations and financial position have been and will be affected by certain changes to Philippine Financial Reporting Standard ("PFRS"), which are intended to further align PFRS with International Financial Reporting Standards.

The Financial Statements of SMIC appearing in this Prospectus have been audited by SyCip Gorres Velayo and Co. ("SGV & Co."), independent auditors, as set forth in their report thereon appearing elsewhere in this Prospectus.

The Company's Audit and Risk Management Committee reviews and approves the scope of audit work of the independent auditor and the amount of audit fees for a given year. The amount will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and amount for the same are subject to review and approval by the Audit and Risk Management Committee.

SMIC's aggregate audit fees for each of the last two fiscal years for professional services rendered by the external auditor were ₱1.8 million and ₱2.1 million for 2012 and 2013, respectively.

Except for the members of SMIC's Legal Affairs Division, there is no arrangement that experts shall receive a direct or indirect interest in SMIC or was a promoter, underwriter, voting trustee, director, officer, or employee of SMIC.

CAPITALIZATION AND INDEBTEDNESS

As at 31 December 2013, the authorized capital stock of the Issuer was ₱12.0 billion divided into 1,190 million common shares and 10 million non-voting cumulative and redeemable preferred shares each with ₱10 par value per share and its issued capital stock was ₱8.0 billion consisting of 796,272,268 million common shares of ₱10 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Group as at 31 December 2013 and as adjusted to give effect to the issue of the Bonds (assuming the Oversubscription Option is not exercised). This table should be read in conjunction with the Issuer's unaudited consolidated financial statements as at and for the year ended 31 December 2013 and the notes thereto, included elsewhere in this Prospectus.

	As at 31 December 2013	
	Actual	**Adjusted**
(in ₱ millions)		
Short-term debt		
Bank loans		
Current portion of long-term debt		
Total short-term debt		
Long-term debt - net of current portion		
Banks and other financial institutions		
The Bonds to be issued		
Total long-term debt - net of current portion		
Equity		
Equity Attributable to Equity Holders of the Parent:		
Capital Stock		
Additional paid-in capital		
Equity adjustment from business combination		
Cost of common shares held by subsidiaries		
Cumulative translation adjustment of a subsidiary		
Actuarial losses		
Net unrealized gain on available for sale investments		
Retained earnings		
Appropriated		
Unappropriated		
Total Equity Attributable to Equity Holders of the Parent		
Non-controlling interests		
Total Equity		
Total capitalization		

Notes:

(1) Adjusted amount as at 31 December 2013 includes ₱10,000,000,000 principal amount of the Bonds offered hereunder.

(2) Total capitalization is the sum of long-term debt and equity.

DESCRIPTION OF THE ISSUER AND THE GROUP

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On 29 April 2009, the Company's shareholders approved the amendment of SMIC's Articles of Incorporation, extending the Company's corporate life for another 50 years from 15 January 2010. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex CBP-1A, Pasay City, Metro Manila, Philippines. Through its subsidiaries, associates and other investments, the Issuer operates a diversified range of businesses located in the Philippines.

The Group's business activities and interests are divided into five principal business sectors:

- retail merchandising through its department store, supermarket, SaveMore, hypermarket and wholesale operations (SM Retail);
- shopping mall developments, where it is the leading shopping mall operator in the Philippines (SM Prime);
- real estatedevelopment and tourism (SM Prime and its subsidiaries SMDC, CDHI and HPI);
- hotels and conventions (SM Hotels); and
- financial services, through its associate banks that have universal banking licenses in the Philippines (BDO and China Bank).

As at 31 December 2013, the Issuer has four principal consolidated subsidiaries namely SM Prime, SM Retail, SVI and SSMI and two principal equity-accounted associates, namely BDO and China Bank, each of whose shares are listed on the PSE, (except for SM Retail, SVI and SSMI), in which the Issuer had effective interests of 51.60%, 100.00%, 100.00%, 100.00%, 46.70% and 20.01%,respectively.

For the years ended 31 December 2011, 2012 and 2013, the Issuer's audited consolidated revenues were ₱199,915.6 million, ₱223,877.2 million and [●], respectively, and its audited consolidated net income attributable to equity holders of the parent were ₱21,224.6 million, ₱24,674.4 million and [●], respectively.

As at 31 December 2011, 2012 and 2013, the Issuer's audited consolidated total assets were ₱449,062.1 million, ₱561,804.0 million and [●], respectively, and its audited total equity was ₱222,286.9 million, ₱261,645.0 million and [●], respectively.

The principal source of consolidated revenue of the Issuer is from sales of merchandise, primarily from Retail Subsidiaries, which contributed ₱150,472.7 million, ₱161,149.6 million and [●], respectively, or 75.3%, 72.0% and [●], respectively, of its consolidated revenues for the years ended 31 December 2011, 2012 and 2013. Shopping malls contributed ₱22,268.0 million, ₱25,893.3 million and [●], or 11.1%, 11.6% and [●], respectively, of the Issuer's consolidated revenues for the years ended 31 December 2011, 2012 and 2013. Real Estate Group and Retail Subsidiaries contributed ₱19,269.3 million,₱25,465.9 million and [●], respectively, of the Issuer's consolidated net income attributable to equity holders of the parent for the years ended 31 December 2011, 2012 and 2013.

History

Mr. Henry Sy, Sr., the founder of the Group, embarked upon his retailing career immediately after the

Second World War when, in 1945, he established a small shoe store in Carriedo, Metro Manila. Having opened six shoe stores, Mr. Sy diversified the business into clothing and soft goods. In 1958, the first Shoemart store opened in Rizal Avenue, Metro Manila and, following the incorporation of Shoemart in March 1960, additional stores opened in Makati Commercial Centre in 1962, in Cebu in 1965 and in Cubao in 1967. Four department stores were opened during the 1970s and, with the intention that one-stop shopping convenience be provided to customers, the new stores featured fast food centers and entertainment areas.

Shoemart operated six SM Department Stores until November 2001, when five stores were transferred to SM Mart, a 65.0% owned subsidiary through SM Retail with the remaining 35.0% held by the Sy Family. Pursuant to a restructuring of the Issuer's department store business in 2002, SM Mart took over most of Shoemart's functions in managing its department store business, such as merchandising, marketing, advertising and certain other services for the SM Department Stores as well as for its Retail Affiliates. In addition to the five SM Department Stores that are directly owned and operated by SM Mart, the Issuer also operates 43 SM Department Stores through 14 other subsidiaries. The Group acquired its supermarket and hypermarket operations in June 2006, and its wholesale operations in October 2007. In October 2008, SM Retail was designated as the holding company for the Group's retail and merchandising operations and the Issuer rationalized its retail and merchandising assets under it.

The Issuer's expansion into real estate development commenced in October 1974 with the incorporation of MRDC. MRDC was formed to develop high-rise condominiums and townhouse units in the prime district of Makati.

In November 1976, Mr. Henry Sy, Sr. acquired Acme Savings Bank, which was renamed Banco De Oro Savings and Mortgage Bank in August 1977 and then as Banco De Oro Commercial Bank in December 1994. The Bank initially provided services predominantly to suppliers of Shoemart, but has subsequently developed into a full-service commercial bank. In August 1996, the Bank was renamed Banco De Oro Universal Bank when the BSP granted approval for the Bank to operate as an expanded commercial bank. BDO undertook its initial public offering and was listed on the PSE in May 2002, raising ₱2.1 billion. In May 2007, the Bank merged with EPCIB and was subsequently renamed Banco De Oro Unibank, Inc. on 6 February 2008. On November 4, 2011, the Bank was renamed to BDO Unibank, Inc. as part of the company's branding initiatives.

Capitalizing upon the success of the SM Department Stores and as an extension of the concept of one-stop shopping, the first shopping mall, SM City — North EDSA, commenced operations in Quezon City in 1985. By January 1994, four shopping malls had been opened, including SM Megamall, the largest shopping mall in the Philippines prior to the opening of SM Mall of Asia in 2006. SM Prime was incorporated in 1994 for the primary purpose of acquiring from other members of the Group, as well as companies affiliated with the Sy Family, the shopping malls and land intended for the development of shopping malls and, henceforth, to be the Group's designated vehicle for shopping mall operations. SM Prime undertook its initial public offering on the PSE in July 1994, raising approximately ₱6 billion. SM Prime currently owns and operates, with the assistance of certain Management Companies, 48 shopping malls, strategically located nationwide with a total gross floor area of 6.1 million square meters and an average occupancy rate of 97% as at 31 December 2013, with over 13,800 tenants. In May 2008, SM Prime acquired three malls from the Sy Family in the southern and western parts of China, namely Xiamen, Jinjiang and Chengdu. On 30 November 2008, SM Prime completed the acquisition of 100% ownership in SM Land (China) Limited from Grand China. In 2009, SM Prime opened three new malls, namely SM City Naga, SM Center Las Piñas and SM City Rosario, and undertook three expansion projects, SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview. The Sky Garden made SM City North Edsa the country's largest mall and the world's third largest mall. On 3 September 2009, SM Land (China) Limited further completed the acquisition of 100% ownership of Alpha Star from Grand China. SM Prime began operations of SM City Tarlac in April 2010. SM City San Pablo, SM City Novaliches and SM City Calamba opened in October 2010 and SM City Masinag opened in May 2011 in the Philippines. SM Suzhou and SM Chongqing in China opened in September 2011 and

December 2012, respectively. SM Prime intends to open SM Zibo in 2014 and SM Tianjin in 2015.

In 1986, the Group obtained majority ownership of SM Fund, Inc., a closed-end investment company listed on the PSE. In May 1996, the SEC approved a change of name of the company to SM Development Corporation and a change of its purpose to property holding and development. The Group has also diversified into tourism and entertainment with plans for the development of mixed-use complexes in Cebu, Tagaytay, Batangas, Baguio and Metro Manila, which include hotels, convention centers, shopping malls and leisure and entertainment facilities. On 1 August 2007, the Issuer approved the rationalization of Shoemart as the holding entity for the real estate and tourism operations of the Group. On 8 October 2007, the Issuer and Shoemart entered into an agreement whereby the Issuer agreed to swap its 1,823,841,965 common shares in SMDC in exchange for 372,212 common shares in Shoemart based on an independent valuation of the respective shares by Macquarie Securities (Asia) Pte Limited. On 24 January 2008, the SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issue of 372,212 shares. The share swap resulted in an increase of the Issuer's ownership in Shoemart from 64.9% to 66.9% while the effective ownership in SMDC was reduced to 43.6% from 59.4%. The shares swap also resulted in SMDC becoming a 65.0%-owned subsidiary of Shoemart. On 3 October 2008, the SEC approved the change in name of Shoemart, Inc. to SM Land, Inc.

On 2 April 2008, SM Hotels was incorporated to further focus on and develop the Group's hotel business, and rationalize the Group's hotel and convention assets under one entity. On 29 March 2010, the SEC approved the change in the corporate name of SM Hotels and Entertainment Corp. to SM Hotels and Conventions Corp.

On May 31, 2013, the Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime, in line with the Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the Group's various real estate business units, and further enhance the value of the Group's real estate businesses. The consolidation involved PSE-listed companies SMDC and HPI, various unlisted Group real estate companies including SM Land and SM Hotels and Conventions Corporation and various real estate properties owned by SMIC.

The Group initiated the consolidation through the simultaneous tender offers made by SM Land to acquire 100% of the outstanding issued and capital stock of SMDC and HPI which it did not yet own by exchanging SM Prime common shares owned by SM Land for SMDC and HPI common shares of the tendering shareholders. This was followed by (i) the merger of SM Land with SM Prime with the latter as the surviving entity, (ii) the issuance of new SM Prime common shares to SMIC, Mountain Bliss Resort & Development Corp. ("Mountain Bliss"), and the Sy family, principal shareholders of SMIC and Group real estate companies, in exchange for shares in certain real estate companies of the Group, and (iii) the issuance of new SM Prime common shares to SMIC in exchange for key real estate properties owned by SMIC. Please see the section "Recent Developments and Prospects" on page [●] of this Prospectus for a more detailed discussion of the consolidation exercise.

SMIC was listed on the PSE on 22 March 2005 and as at [14 February 2014] had a market capitalization of [₱558,983 million] based on a share price of [₱703.00] on such date.

Strategy

The Issuer's strategy is focused on growing its retail, commercial center, property and financial services businesses, and maintaining or attaining market leadership in each of their respective sectors. The Issuer will continue to target the mass market in the Philippines by offering essential goods and services such as food, clothing, housing and financial services.

The Issuer is responsible for setting Group policy and strategy. The Issuer establishes the financial and operating policies for the Group and supervises and monitors the performance of its subsidiaries and associates.

Key elements of the Issuer's strategy are to:

- maintain its leading market share in the shopping mall sector by continuing to expand the Group's mall and retail activities into major centers of population in Metro Manila and particularly in the provinces, where there are opportunities for growth and capture strategic opportunities overseas particularly China;

- continue to capture a significant share of retail spending in the Philippines, including what it believes is a significant share of approximately US$21.4 billion for 2012 (based on BSP data) in remittances from overseas Filipino workers by ensuring that the Issuer provides the most attractive retail and leisure facilities to Philippine mass market consumers;

- continue to grow its financial services businesses, including through acquisitions by BDO, and develop further synergies between financial services and its shopping malls and the Retail Subsidiaries by encouraging its suppliers and retail customers to take advantage of and utilize the financial services offered by BDO and China Bank; and

- diversify and expand the businesses of the Group (including through acquisition) by developing opportunities in the real estate development, tourism and leisure, hotel and convention sectors, where it believes there are significant opportunities for growth as the Philippines becomes a more attractive tourist destination, by leveraging the Group's significant and strategically located land bank.

- integrate all land banking functions into a centralized department while retaining the highly successful culture that allowed the Group to reach its strong current land bank position, and continue acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines

- supervise a range of related businesses and investments, providing support, expertise and funding to its developing businesses and encouraging further growth in its more established businesses;

- promote the independence of its various businesses in terms of executing set strategies and encouraging financial independence in terms of external funding;

Strengths

The Issuer believes that the key strengths of the Group and its associates are as follows:

- a well-established platform providing quality services from retail to real estate development to financial services to cater for the domestic consumption growth in the Philippines;

- its 56 years of retail experience, which has created significant goodwill among its customers and suppliers, a well-known brand and image and a reputation for providing value for customers;

- its leading market share positions in providing one-stop experience through shopping malls, department stores and supermarkets and the largest bank in the Philippines in terms of assets;

- fast growing residential development expertise that is sitting at the sweet spot of the local real estate markets, well-supported by SM-branded shopping malls nearby;

- prudent financial management and a strong balance sheet with stable recurring cash flows through focusing on diverse businesses which are relatively less cyclical;

- its experienced management team with a proven track record in the Philippines and abroad, which has consistently focused on related businesses that promote synergies; and
- its overall corporate reputation in the Philippines and abroad, which has brought the Group numerous awards for corporate excellence, corporate governance and financial management.

Ownership and Corporate Structure

As at the date of this Prospectus, the Sy Family holds [●]% of the outstanding issued and paid-up share capital of the Issuer.

The chart in the following page sets forth the Issuer's simplified corporate structure, organized by business sector, including its principal subsidiaries and associates and the direct ownership of each as at 31 December 2013.

[● *insert chart*]

The following table sets forth a breakdown on a consolidated basis of the Group's principal businesses in terms of total revenues, total net income attributable to equity holders of the Parent, total assets and total liabilities for the years ended 31 December 2011, 2012 and 2013 save as stated otherwise:

	As at and for the year ended December 31				
	2011		**2012**		**2013**
(in ₱ millions, except percentages)					
Revenues					
Shopping Mall Development (1)	22,268.0	11%	25,893.3	12%	
Retail Merchandising (2)	150,472.7	75%	161,149.6	72%	
Real Estate Development and Tourism (3)	19,269.3	10%	25,465.9	11%	
Others (4)	7,905.6	4%	11,368.5	5%	
Total	199,915.6	100%	223,877.3	100%	
Net Income Attributable to Equity Holders of the Parent					
Shopping Mall Development (1)	5,031.2	24%	5,636.8	23%	
Retail Merchandising (2)	6,465.9	31%	7,028.6	28%	
Real Estate Development and Tourism (3)	3,266.8	15%	3,592.3	15%	
Others (4)	6,460.7	30%	8,416.7	34%	
Total	21,224.6	100%	24,674.4	100%	
Assets (excluding deferred tax)					
Shopping Mall Development	130,638.5	29%	150,622.6	27%	
Retail Merchandising (1)	60,961.5	14%	67,379.4	12%	
Real Estate Development and Tourism (2)	86,240.4	19%	116,058.1	21%	
Others (3)	170,527.0	38%	227,101.8	40%	
Total (4)	448,367.4	100%	561,161.9	100%	
Liabilities (excluding deferred tax)					
Shopping Mall Development (1)	61,960.2	28%	76,004.1	26%	
Retail Merchandising (2)	27,963.5	13%	32,561.3	11%	
Real Estate Development and Tourism (3)	24,732.5	11%	44,183.7	15%	
Others (4)	107,611.0	48%	142,867.0	48%	
Total	222,267.2	100%	295,616.1	100%	

Notes: [To be updated]

(1) Shopping mall development includes the relevant financial information of SM Prime.

(2) Retail merchandising includes the relevant financial information of SM Retail, the Department Stores Companies, SVI, Sanford, SSMI, Makro and Service Companies as at 31 December 2011, 2012 and 2013. Makro was consolidated in SMIC starting October 2007 and SM Retail was consolidated starting January 2008.

(3) Real estate development and tourism includes the relevant financial information of SMDC, Bellevue Properties, Inc. and Intercontinental Development Corporation. This also includes the relevant financial information of SM Land (formerly Shoemart) as at 31 December 2011, 2012 and 2013.

(4) Others relates to the relevant financial information of SMIC, with respect to revenues, includes primarily the equity in net earnings of BDO, China Bank and HPI, dividend income from San Miguel and Ayala Corporation and management fees. Others also includes the relevant information of Primebridge Holdings, Inc. and MRDC as at 31 December 2011, 2012 and 2013. Others also includes the relevant information of SM Hotels as at and for the years ended 31 December 2011, 2012 and 2013 since the contribution of SM Hotels to the Group is insignificant as of today. SM Hotels was consolidated in SMIC starting October 2008.

The following table sets forth a breakdown of the dividend income from the Issuer's principal subsidiaries and associates for the periods indicated. Under PFRS, dividend income from the Issuer's subsidiaries and associates is eliminated at consolidated level.

	As at and for the year ended December 31		
	2011	**2012**	**2013**
(in ₱ millions)			
Company			
Retail Subsidiaries	5,222.1	5,552.8	[●]
SM Prime	812.5	872.7	[●]
SM Land (formerly Shoemart)	802.7	428.1	-
China Bank	222.6	244.9	[●]
BDO	990.5	79.1	[●]
SMDC	0.9	0.5	[●]
HPI	-	-	-
Primebridge	440.0	5.2	-
MRDC	-	718.2	-
Others	25.7	23.0	[●]
Total	**8,517.0**	**7,924.5**	[●]

Malls and Real Estate

SM Prime Holdings, Inc.

Introduction

SM Prime was incorporated on 06 January 1994 and is a leading integrated Philippine real estate company with business units focused on malls, residential, commercial, hotels and convention centers, and leisure and resorts. SM Prime is the surviving company of a series of transactions involving the real estate companies of the Group.

As of 31 December 2013, SM Prime's combined total assets stood at [●] and combined total liabilities were at [●].

For the years ended 31 December 2011, 2012 and 2013, SM Prime contributed approximately 11% (₱22.21 billion), [●] ([●]) and [●] ([●]) of the Issuer's consolidated revenues, approximately 24% (₱5.03 billion), [●] ([●]) and [●] ([●]) of its consolidated net income attributable to equity holders of the parent, and comprised approximately 29% (₱130.64 billion), [●] ([●]) and [●] ([●]) of the Issuer's consolidated total assets (excluding deferred tax) as at 31 December 2011, 2012 and 2013, respectively.

As at 31 December 2013, SMIC directly and [indirectly] owned [●]% of the issued share capital of SM Prime. SM Prime is listed on the PSE and had a market capitalization of [●] as at [●].

Selected Financial Information

The following table sets forth selected consolidated financial information of SM Prime as at and for the periods indicated. SM Prime's fiscal year end is 31 December.

Income statement data	For the years ended 31 December		
	2011	2012	2013
(in ₱ millions)			
Revenues			
Operating expenses			
Interest expense			
Income before income tax and non-controlling interest			
Non-controlling interest			
Net income attributable to Equity Holders of the Parent			

Balance sheet data	As at 31 December		
	2011	2012	2013
(in ₱ millions)			
Assets			
Cash and cash equivalents			
Short-term investments			
Investments held for trading			
Available-for-sale investments			
Receivables			
Prepaid expenses and other current assets			
Total Current Assets			
Investment properties			
Other noncurrent assets			
Total Noncurrent Assets			
Total Assets			
Liabilities			
Current portion of long-term debt and loans payable			
Total Current Liabilities			
Long-term debt			
Tenants' deposits			
Total Noncurrent Liabilities			
Total Liabilities			
Stockholders' Equity			
Total Equity Attributable to Equity Holders of the Parent			
Non-controlling interests			
Total Stockholders' Equity			
Total Liabilities and Stockholders' Equity			

The following table sets out the revenues for each of SM Prime's business units for the years ended December 31, 2011, 2012 and 2013:

	For the years ended December 31,		
	2011	2012	2013
(in ₱ millions)			
Mall	23,715.9	26,897.5	
Residential	9,203.7	16,303.3	
Commercial	8,061.7	4,951.5	
Hotels and Convention Centers	646.9	1,193.3	
Leisure and Resorts	1,772.8	1,201.2	
Eliminations	(413.5)	(459.9)	
Combined Total	₱42,987.5	₱50,086.9	

MALLS

SM Prime develops, operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. As of the date of this Prospectus, SM Prime owns 48 malls (as listed below) covering a total GFA of approximately 6.1 million sq. m. located across the Philippine archipelago, attracting an average of approximately 4 million visitors daily. SM Prime is the leading owner and operator of shopping malls in the Philippines. SM Prime plans to continue to expand its existing malls and develop new ones, with a target of opening approximately three to four new malls in the Philippines each year for the near term, subject to market conditions.

SM Prime has in the past concentrated on the development of its malls in the Metro Manila area, where it currently operates eighteen malls. In addition, SM Prime currently plans to develop in the future three plots of land in Metro Manila of which two are owned and one is leased. As the Metro Manila area becomes increasingly well served by shopping malls, SM Prime's strategy is to expand its activities in the provinces, where it currently operates 30 malls and holds an additional 16 plots of land available for development, all of which are owned.

SM Prime has also expanded its shopping mall operations outside of the Philippines. SM Prime owns five operational malls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou and Chongqing in the southern and western parts of China with a total GFA of approximately 0.8 million sq. m., with two additional malls under development. SM Prime is targeting the acquisition of additional properties in China in the future as it prepares for opportunistic expansion into second and third tier cities. SM prime plans to build one mall in China per year for the near term, subject to markets conditions.

The principal sources of mall revenue for SM Prime comprise rental income payable by tenants (including its retail subsidiaries) within the malls, ticket sales derived from the operations of cinemas, and fees payable for the use of SM Prime's parking facilities, bowling, ice skating and other leisure facilities. Approximately 50% of SM Prime's gross leasable space is currently leased by members of the SM Group or companies who are affiliated with the Sy family. Such tenants contributed approximately [●]% (₱9.54 billion) of SM Prime's combined mall revenues of ₱[●] billion for the year ended 31 December 2013.

SM Prime retains ownership of all of the sites on which the SM Prime malls are built, with the exception of SM City Bacoor, SM City Manila, SM City Baguio, SM Center Valenzuela, SM Center Molino, SM City Clark, SM Mall of Asia, SM Center Pasig, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion and SM City General Santos, which are held under long-term leases. SM Megamall is owned by First Asia Realty Development Corporation, a [74.2]% owned subsidiary of SM Prime, with the remaining interest being held by an unaffiliated third party. In addition, the lands where the SM Mall of Asia and SM City Baguio are built are owned by SM Prime and SMIC, respectively. The land where SM City San Lazaro is located is owned by San Lazaro Holdings Corporation, a wholly owned subsidiary.

The following is a brief discussion of each of SM Prime's current malls.

Metro Manila Malls

SM City North EDSA

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

SM Mall of Asia

MOA is located on a 19.5 hectare property overlooking Manila Bay. The MOA complex consists of four buildings linked by elevated walkways—Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The mall measures 406,961 sq. m. Each parking building has 3,984 spaces available for vehicles. The Entertainment Building houses the country's first IMAX theater, a special Director's Club screening room for exclusive film showings, seven state-of-the art cinemas, 32-lane bowling facility, an olympic-sized ice skating rink, a Science Discovery Center and Planetarium and fine dining restaurants and bars. The anchor tenants for MOA are SM Department Store and SM Hypermarket.

SM Megamall

SM Megamall is located on a 10.5 hectare property in the Ortigas business district of Metro Manila. It stands along the main EDSA thoroughfare and is near the Metro Rail Transit. The two main buildings, Mega A and Mega B, with the addition of Mega Atrium in 2008 and Building C, which is mainly a parking building, in 2011, have a combined GFA of 405,435 sq. m. and feature 12 cinemas with a seating capacity of 8,079, a food court, a trade hall, event center and parking for 2,976 vehicles. SM Megamall Building D was completed on January 28, 2014. SM Megamall is the largest mall in the Philippines to date. The anchor tenants for SM Megamall are SM Department Store and SM Supermarket.

SM Aura Premier

SM Aura Premier, opened in May 2013, is a civic center located in Taguig. The mall has a GFA of 234,892 sq. m. The mall is part of an integrated development including office towers, a chapel, a convention center and a mini-coliseum, supported by a retail podium with an upscale look and feel. The mall also has four cinemas and an IMAX Theater. SM Aura Premier has SM Department Store and SM Supermarket as its anchor tenants.

SM City Southmall

SM City Southmall is a four-level complex with a GFA of 205,687 sq. m. featuring nine cinemas with a seating capacity of 7,060, including a 3D IMAX theater, a food court, ice skating rink, amusement centers and a car park for 3,068 cars. SM City Southmall is located on a 20.0 hectare site in Las Piñas City and was the first SM supermall in the southern region of Metro Manila. The anchor tenants for SM City Southmall are SM Department Store and SM Supermarket.

SM City BF Parañaque

SM City BF Parañaque, which is strategically located at the main gate of Parañaque's prime residential village, has a GFA of 120,200 sq. m. The anchor tenants for SM City BF Parañaque are SM Department Store and SM Supermarket. The mall will be the first mall to have four Director's Club cinemas equipped with electronic recliner (lazyboy type) seats that can accommodate up to 200 moviegoers and will also house two premier cinemas with 180 seats each. The mall was opened on November 29, 2013.

SM City Fairview

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

SM City San Lazaro

SM City San Lazaro is located at the center of a densely populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-storey mall has a GFA of 181,593 sq. m. The mall features a food court, amusement center, six cinemas with a seating capacity of 3,274, and parking for more than 1,000 vehicles. The anchor tenants for SM City San Lazaro are SM Department Store and SM Supermarket.

SM City Marikina

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

SM City Manila

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

SM City Sta. Mesa

SM City Sta. Mesa is a seven-level complex with a GFA of 133,563 sq. m. featuring 10 cinemas with a seating capacity of 7,451, a food court, an amusement center, a car park on six levels and outdoor parking with a total capacity of 1,176 cars located in Quezon City, Metro Manila. The anchor tenants for SM City Sta. Mesa are SM Department Store and SM Supermarket.

SM City Bicutan

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

SM City Sucat

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

SM Center Valenzuela

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

SM City Novaliches

SM City Novaliches, which has a GFA of 60,560 sq. m., is located along Quirino Highway in Brgy. San Bartolome, Novaliches, Quezon City. Novaliches, being the largest district in the city, is growing with residential subdivisions and industrial companies. The amenities of the mall include a food court, four cinemas with 1,610 seats and parking for almost 1,206 vehicles.

SM Center Muntinlupa

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

SM Center Las Piñas

SM Center Las Piñas is located along the Alabang-Zapote Road in Brgy. Talon, Pamplona, Las Piñas City and has a GFA of 39,788 sq. m. SM Center Las Piñas serves customers in the western section of the city and the nearby provinces of Laguna and Cavite. The anchor tenants for SM Center Las Piñas are SM Department Store and SM Supermarket.

SM Center Pasig

SM Center Pasig is located in Frontera Verde, Pasig City serving residents of the neighboring upscale subdivisions and customers who regularly pass through the C5 route. Its GFA is 29,602 sq. m., which includes basement parking for almost 300 vehicles. SM Center Pasig has SM Hypermarket as its main anchor tenant.

Malls Outside of Metro Manila

SM City Cebu

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

SM City Dasmariñas

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

SM Lanang Premier

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

SM City Clark

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

SM City Pampanga

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

SM City Davao

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

SM City General Santos

SM City General Santos is a three-level mall located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. The mall has a GFA of 125,245 sq. m. and its amenities include a food court, four cinemas with a combined seating capacity of 1,690, and parking for more than 800 vehicles. The anchor tenants for SM City General Santos are SM Department Store and SM Supermarket.

SM City Bacoor

SM City Bacoor is a five level complex with a GFA of 120,202 sq. m. located in General Emilio Aguinaldo

Highway corner Tirona Highway, Brgy. Habay, Bacoor City, Cavite. The shopping complex features eight cinemas with a 4,381 seating capacity, and food court and amusement areas. It is the very first SM supermall in the entire Luzon region (outside Metro Manila) and the very first in the Cavite province. The anchor tenants of SM City Bacoor are SM Department Store and SM Supermarket.

SM City Baguio

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

SM City Iloilo

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

SM City Consolacion

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

SM City Tarlac

SM City Tarlac is located along MacArthur Highway, San Roque, Tarlac City. It is the very first SM supermall in the province of Tarlac. The four-level mall has a GFA of 101,629 sq. m. The mall features a food court, four cinemas with 1,882 seating capacity, and parking for over 800 vehicles. The anchor tenants for SM City Tarlac are SM Department Store and SM Supermarket.

SM City Taytay

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

SM City Marilao

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

SM City Masinag

SM City Masinag is a three-floor mall located along Brgy. Mayamot, Marcos Highway, Antipolo City. It has a

GFA of 90,261 sq. m. SM City Masinag's amenities include a food court, four cinemas with a combined seating capacity of 1,148, and parking for more than 450 vehicles. The anchor tenants for SM City Masinag are SM Department Store and SM Supermarket.

SM City Cagayan De Oro

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

SM City Sta. Rosa

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

SM City Batangas

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

SM City Lucena

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

SM City Lipa

SM City Lipa is a two-level mall strategically located along Lipa's Ayala Highway. It occupies 10.3 hectares of land, with 77,261 sq. m. of GFA. Lipa City features natural attractions and is a commercial, educational and industrial destination. The mall features a food court and four cinemas with 2,482 seating capacity. The anchor tenants for SM City Lipa are SM Department Store and SM Supermarket.

SM City Naga

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

SM City Bacolod

SM City Bacolod is a two-building mall located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It has a total land area of 16.1 hectare and has a GFA of 71,752 sq. m. The mall features a food court, amusement centers and four cinemas with 2,001 seating capacity. The anchor tenants for SM City Bacolod are SM Department Store and SM Supermarket.

SM City Calamba

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

SM City Rosales

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

SM City Baliwag

SM City Baliwag is located in Brgy. Pagala, Baliwag, Bulacan, approximately 40 kilometers from the EDSA—Balintawak interchange of the North Luzon Expressway. It has a GFA of 61,262 sq. m. Among the facilities included are four cinemas with a combined seating capacity of 1,241, a food court and parking for almost 531 vehicles. The anchor tenants for SM City Baliwag are SM Department Store and SM Hypermarket.

SM City Rosario

SM City Rosario is located in Brgy. Tejero in Rosario. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of Cavite and neighboring provinces as well. It has a GFA of 59,326 sq. m. and features a food court and four cinemas with a capacity of 1,552 seats. The anchor tenants for SM Rosario are SM Department Store and SM Supermarket.

SM City San Pablo

SM City San Pablo has a GFA of 59,609 sq. m. It is located along Maharlika Highway in Brgy. San Rafael, San Pablo City in the province of Laguna. The mall features a business center, a food court and four cinemas with seating capacity of 1,560. It also has an atrium for various events. The anchor tenants for SM City San Pablo are SM Department Store and SM Supermarket.

SM Center Molino

SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a GFA of 52,061 sq. m. SM Center Molino is the first to have the Service Lane, which comprises of different shops that offer a wide array of services situated outside the mall across the covered parking. The mall features four cinemas with 1,433 seating capacity and parking for 800 vehicles. The mall's anchor tenant is the SM Hypermarket.

SM City Olongapo

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

SM City San Fernando

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

Joint Venture with WalterMart

In 07 January 2013, SM Prime entered into a joint venture with WalterMart, a leading operator of small scale community malls, a segment SM Prime has not previously catered to. The WalterMart arrangement is a 51%-49% joint venture in favor of SM Prime. The arrangement allows SM Prime to accelerate its expansion with the addition of WalterMart's 19 existing community malls. The WalterMart brand has been retained for the existing community malls that are located in Metro Manila, North Luzon and South Luzon. This joint venture provides an opportunity for SM Prime to access an additional business segment that is complimentary to its malls in the Philippines and China.

Land bank

The following table sets forth SM Prime's existing land bank owned or available on long-term lease for development of new malls as of 31 December 2013:

Location	**Gross Area (sq. m.)**
Owned	
Cebu SRP	304,100
Pangasinan (Urdaneta)	175,035
Pangasinan (Dagupan)	149,320
Cabanatuan (Concepcion)	110,242
Roxas City (Baybay)	102,309
Bulacan (San Jose del Monte)	60,193
Palawan (Puerto Princesa)	69,855
Cavite (Trece Martires)	49,498
Agusan del Norte (Butuan)	37,233
Laguna (Sta. Rosa)	42,174
Quezon City / Caloocan	30,073
Cagayan de Oro	28,935
Leyte (Tacloban City)	26,016
Davao del Norte (Tagum City)	24,633
Zamboanga City (Calenar)	21,567
Tuguegarao City	16,181
Rizal (Angono)	12,573
Caloocan (Sangandaan)	10,563
Leased	
Commonwealth	19,199
Total	**1,289,699**

Principal Tenants

SM Prime enjoys a competitive advantage due to its long-standing retail experience in establishing an appropriate mix of tenants including its associated anchor tenants. SM Prime controls the tenant mix of each of its malls, which has contributed to the profitability of the malls. The principal anchor tenants in the malls include SM Department Stores, SM Supermarkets and SM Hypermarkets. Other significant tenants include National Bookstore, KFC, Jollibee, McDonalds, Chowking, Pizza Hut, Goldilocks, Greenwich, Mang Inasal and Max's Restaurant.

As of 31 December 2013, the SM Department Stores occupied in aggregate a gross area of 1,004,807.07 sq. m. within the malls, or 33% of total leasable area. Supervalue, Inc. and Super Shopping Market, Inc. operate the SM Supermarkets and SM Hypermarkets in all of the malls and occupied in aggregate a gross area of 440,972 sq. m. as of 31 December 2013, or 14% of total leasable area.

In addition to the anchor tenants associated with SM Prime, other retail operations controlled by or in which the Sy family has a significant interest, such as Ace Hardware, SM Appliance Center, Surplus Shop, Home World, Our Home, Toy Kingdom, BDO, Kultura and Watsons, are also tenants in most of the malls.

During the years ended 31 December 2011, 2012 and 2013, approximately 32%, 33% and 33%, respectively, of the aggregate mall rental revenue received by SM Prime in respect of the malls was from members of the Group and companies affiliated with the Sy family. Out of the total increase in mall rental revenue of 12% for the year 2013, same store sales contributed 7% while new malls and expansion of existing malls contributed 5%.

SM Prime believes that all the leases entered into between SM Prime and the Group or companies affiliated to the Sy family have been entered into on an arm's length basis and on commercial terms.

The SM Mall of Asia also hosts some premier tenants, which specialize in higher-end merchandise, such as Mango, Zara, Marks & Spencer, Topshop and Muji.

Leasing Policies

The leasing policy of SM Prime in relation to each of the malls is to screen applicants carefully and to secure an appropriate mix of tenants, both in terms of the nature of their businesses and their size. An average of less than 3% of tenants per mall did not renew their leases upon expiry or had their leases terminated early in each of the three years ended 31 December 2011, 2012 and 2013. The high demand for tenancies within the malls means that SM Prime generally has a waiting list sufficient to cover any vacancies that may arise in the malls.

It is the policy of SM Prime that all leases, whether with members of the SM Group, companies affiliated with the Sy family or unrelated third parties, should be entered into on commercial terms, and SM Prime considers that the current rentals payable by tenants of the malls that are operational at present reflect prevailing market rents.

SM Prime's tenancies 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 two to five years, renewable on an annual basis thereafter. Sixty days' notice is required of SM Prime's tenants for termination of their leases, and a six-month deposit is paid at the commencement of the lease. Upon expiry of a lease, the rental rates are adjusted to reflect the prevailing market rent. SM Prime charges rent as either a fixed rent per sq. m. or a variable rate which is a minimum per sq. m. or a base charge plus a percentage of a tenant's sales, whichever is higher.

Management of the Malls

Management and operation of the malls, including the provision of manpower, maintenance and engineering and security, leasing, marketing and other promotional activities, are assumed by the Management Companies. In addition, the Management Companies negotiate and handle major tenant issues for the malls, while reporting to and under the direction of SM Prime. The Management Companies also adjust the tenant mix according to instructions given by SM Prime, which is based on a variety of factors, including the target market, location of the mall, demographics, size of the retail spaces and market positioning, among others. Each of the Management Companies performs specific functions in relation to each of the malls. All operating expenses relating to the malls are charged directly to SM Prime by the Management Companies. As consideration for the services provided by the Management Companies under the management contracts between SM Prime and the Management Companies, the Management Companies are entitled to receive an annual fee which is equivalent to 5% of the annual operating income of each mall before income tax, financial charges and interest expense. The aggregate amount of such management fees for the years ended 31 December 2011, 2012 and 2013 was ₱795 million, ₱861 million and ₱964 million, respectively, amounting to approximately 3% of total combined revenue in each period.

The entertainment and leisure facilities within the malls, including cinemas, bowling centers and ice skating rinks, are primarily owned by SM Prime, and SM Prime pays management fees to the Management Companies for managing the operations of the entertainment and leisure facilities within the malls. Certain entertainment facilities, such as amusement rides, are operated by third parties, whereby SM Prime receives a percentage of the amusement fees.

Competition

SM Prime's malls compete with other shopping malls in the geographic areas in which they operate. The other major shopping mall operators in the Philippines are Robinsons Malls and Ayala Land. SM Prime believes that it is well placed to face increased competition in the shopping mall industry given the competitive advantages it has, including, among others, the location of its existing malls, SM Prime's land bank, its balance sheet strength, a proven successful tenant mix and selection criteria, and the presence of the SM Department Stores, SM Supermarkets, SM Hypermarkets and retail affiliates of the Group within the malls. SM Prime believes that its experience and understanding of the retail industry has also been a contributing factor to its competitive advantage in the industry.

Subsidiaries

SM Prime has five wholly-owned mall related Philippine subsidiaries, namely, Premier Central, Inc., Premier Southern Corp., Consolidated Prime Dev. Corp., San Lazaro Holdings Corporation, and Southernpoint Properties Corp. SM Prime holds its interests in SM City Batangas and SM City Lipa, SM City Dasmariñas, SM City Clark and SM City Lanang through Premier Southern Corp., Consolidated Prime Dev. Corp., Premier Central, Inc. and Southernpoint Properties Corp., respectively. First Asia Realty Development Corporation is a 74.2% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM Megamall. First Leisure Ventures Group, Inc. is a 50.0% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM by the Bay. All malls not otherwise mentioned in this paragraph are owned directly by SM Prime.

SM Prime Malls in China

SM Prime acquired three SM China malls (SM Xiamen, SM Chengdu and SM Jinjiang) from the Sy family in 2007. The acquisition was intended to allow SM Prime to gain a foothold in China and use it as a platform for long-term growth outside the Philippines. SM Prime has since opened two additional malls in Suzhou and Chongqing, with two more malls under development in Zibo and Tianjin and a recently acquired property in Changzhou slated for future development.

Similar to SM Prime's approach in the Philippines, construction of the SM Prime malls in China is outsourced to third-party contractors. The SM Prime malls in China also pay management fees to an affiliate, Shopping Center Management Corporation, for managing the operations of the malls.

The SM Prime malls in China have a similar look and layout to the malls in the Philippines. Among the anchor tenants of the five malls are Wal-Mart, Vanguard and SM Department Store, Cybermart and Wanda Cinema. Junior anchor tenants include Watsons, McDonald's, Zara, Uniqlo, H & M, Muji and a number of international and local brands.

Below is a discussion of each of SM Prime's malls in China.

SM City Xiamen

SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4 hectare lot and has a GFA of 238,125 sq. m. plus an open carpark for 2,188 cars. The mall has as its anchor tenants Wal-Mart, SM Laiya Department Store, Wanda Cinema plus several junior anchors. The occupancy rate for SM City Xiamen for the years ended 31 December 2011, 2012 and 2013 was 97%, 98% and 98%, respectively.

SM City Jinjiang

SM City Jinjiang in Jinjiang City, Fujian Province is situated on an 11.5 hectare lot and has a GFA of 167,830 sq. m. plus an open carpark for 1,700 cars. The mall has as its anchor tenants Wal-Mart, SM Laiya Department Store and Wanda Cinema plus several junior anchors. The occupancy rate for SM City Jinjiang for the years ended 31 December 2011, 2012 and 2013 was 94%, 95% and 94%, respectively.

SM City Chengdu

SM City Chengdu in Chengdu City, Sichuan Province is situated on a 4.7 hectare lot and has a GFA of 166,665 sq. m. plus an open carpark for 810 cars. The mall has as its anchor tenants Wal-Mart, SM Laiya Department Store and Wanda Cinema plus several junior anchors. The occupancy rate for SM City Chengdu for the years ended 31 December 2011, 2012 and 2013 was 97%, 85% and 88%, respectively.

SM City Suzhou

SM City Suzhou in Wuzhong District, Jiangsu Province is situated on a 4.1 hectare lot and has a GFA of 72,552 sq. m. plus an open carpark for 400 cars. The mall has as its anchor tenants Vanguard Hypermarket, SM Department Store, and Wanda Cinema plus several junior anchors. The occupancy rate for the years ended 31 December 2011, 2012 and 2013 was 86%, 95% and 94%, respectively.

SM City Chongqing

SM City Chongqing, located in the Yubei District, Southwest China, has a GFA of 149,429 sq. m. The mall's major anchor tenants are Vanguard Supermarket, SM Department Store and Wanda Cinema plus several junior anchors. SM City Chongqing is a one building structure with five levels. The occupancy rate for SM City Chongqing for the year ended 31 December 2012 and 2013 was 79% and 87%, respectively.

Malls Under Development in China

The following table sets forth certain information regarding planned development projects of other malls in China:

Location/Name	**Proposed Date for Completion**	**Gross Floor Area (sq. m.)**
Zibo	2014	154,000
Tianjin	2015	540,000

The following table sets forth certain information regarding the contribution of the SM malls in China to SM Prime's total combined revenues and combined net income for the period stated:

	For the year ended December 31					
	2011		2012		2013	
	(audited) (in millions of pesos, except percentage of SM Prime's total)					
Revenue	2,046	8%	2,537	8%	[●]	[●]%
Net income	889	10%	1,103	10%	[●]	[●]%

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

RESIDENTIAL

SM Prime's residential income is derived primarily from property development and sales, which is conducted by its subsidiary, SMDC. SM Prime's revenue from residential operations is derived largely from the sale of condominium units. SM Prime continues to finance its property projects through internally generated funds and external borrowings, such as through fixed-rate corporate notes, term loans and contract-to-sell financing.

SM Prime, through its 100% interest in SMDC, owns SM Synergy Properties Holdings, Corp., SM Residences Corp, Landfactors Incorporated, Vancouver Lands, Inc., Twenty Two Forty One Properties, Inc., Guadix Land Corporation, Lascona Land Company, Inc., Metro South Davao Properties Corporation, SMDC HK Limited, SMDC International (USA), Inc. and SMDC International (UK) Ltd.

As of the date of this Prospectus, SM Prime has five completed projects and sixteen ongoing residential property development projects as discussed below:

Completed Residential Projects

The following projects have completed their construction but units are still being sold by SM Prime:

Chateau Elysee

Chateau Elysee is a six-cluster, six-storey residential condominium project in a 4.7 hectare lot in Parañaque City, Metro Manila. This project offers one-bedroom and two-bedroom units. Cluster one, comprising 384 units, was launched in the third quarter of 2003 and completed in December 2004. Construction of cluster two with 384 units was completed in May 2006. Construction of cluster three with 400 units was completed in May 2007. Construction of cluster six with 504 units was completed in December 2008. Construction of cluster five, with 559 units was completed in November 2009. Construction of Cluster four with 588 units began in February 2010 and was completed in June 2011.

Mezza Residences

SMDC's first high-rise project is the Mezza Residences ("Mezza"), which is a mixed-use development project with 38-storey four-tower condominiums and commercial retail area located across from SM City Sta. Mesa, Manila. Each tower has 400 to 800 residential units comprised of one-, two-, three- and four-bedroom configurations, with floor areas ranging from 21 to 67 sq. m. Mezza consists of 2,332 saleable residential units, each priced between ₱1.7 million to just under ₱6.7 million, and 18 commercial units for lease with SaveMore store as the anchor tenant. As at 31 December 2013, construction of Mezza towers one to four was 100% complete and SMDC had sold 95% of the units in Mezza.

Berkeley Residences

Berkeley Residences is a 35-storey high-rise condominium project situated just across Miriam College in Quezon City. Berkeley Residences comprises 1,276 units which were completed in June 2011, of which 99% were sold as at 31 December 2013.

Sea Residences

Sea Residences is a 15-storey residential and commercial condominium project comprising of six buildings with 2,898 residential units and 21 commercial units, located at the MOA Complex Pasay City. Phase One of Sea Residences comprises 1,159 units of which 99% were sold as at 31 December 2013; construction for Phase 1 started in January 2009 and was completed in March 2012. Phase Two comprises 920 units of which 94% were sold as at 31 December 2013; construction for Phase Two started in December 2009 and was completed in November 2012. Phase Three of Sea Residences comprises 820 units of which 97% were sold as at 31 December 2013; construction for Phase Three started in March 2010 and was completed in December 2012.

Princeton Residences

Princeton Residences is a 38-storey high-rise condominium project located along Aurora Blvd., Quezon City which was completed in March 2013. Princeton Residences comprises 1,096 units of which 75% were sold as at 31 December 2013.

Ongoing Residential Projects

The following projects are still under construction and are being sold by SM Prime:

Grass Residences – Phase 1

Grass Residences – Phase 1 was launched in March 2008, a three-tower 40-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 1 of Grass Residences comprises 1,988 units, which were completed in October 2011 and of which 94% were sold as at 31 December 2013. Tower 2 comprises 2,025 units, of which 97% were sold as at December 31, 2013 and is expected to be completed in the fourth quarter of 2014. Tower 3 comprises 1,990 units, of which 98% were sold as of 31 December 2013. Construction of Tower 3 of Grass Residences commenced in February 2010 and was completed in December 2013.

Grass Residences – Phase 2

Grass Residences – Phase 2 was launched in March 2013, a two-tower 43-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 4 comprises 1,957 units, of which 28% were sold as at 31 December 2013. Construction of Tower 4 is expected to commence in early 2014.

Field Residences

Field Residences is a residential condominium project that will ultimately consist of ten buildings located behind SM Sucat, Parañaque. Buildings 1, 2, 3, 7 and 8 of Field Residences comprises 1,974 units of which 88% were sold as at 31 December 2013. Construction of buildings 1, 2, 8 and 3 were completed in April 2010, April 2011, December 2011 and December 2012, respectively. Building 7 was completed in

September 2013. Construction of the other buildings of Field Residences had not yet started as at 31 December 2013.

Sun Residences

Sun Residences is a project comprising two 40-storey towers located along España Blvd., Quezon City near Welcome Rotonda. Sun Residences Tower 1 comprises 2,057 units of which 89% were sold as at 31 December 2013. Tower 2 comprises 1,982 units of which 73% were sold as at 31 December 2013. Construction of Tower was completed in November 2013; Tower 2 is expected to be completed by the first quarter of 2014.

Jazz Residences

Jazz Residences is a mixed use development project comprising four 41-storey towers located at N. Garcia corner Jupiter, Makati City. Towers A, B, C and D of the project with 5,367 units were 80% sold as at 31 December 2013. Construction of Tower A started in April 2010 and was completed in December 2013 while construction of Tower C started in October 2010 and is expected to be completed in March 2014. Tower D is expected to be completed in September 2014. Construction of Tower B started in July 2011 and expected to be completed by October 2014.

Light Residences

Light Residences is a mixed use development project with three 40-storey towers located along EDSA, Mandaluyong City. It has a total of 4,227 units which were 94% sold as of 31 December 2013. Construction of Phase 1, which consists of the podium and Tower 1, started in March 2010 and was completed in December 2013. Construction of Phase 2 (Tower 3) started in March 2012 and was completed in December 2013. Construction of Phase 3 (Tower 2) commenced in March 2010 and is expected to be completed in the fourth quarter of 2014.

Wind Residences

Wind Residences is a residential condominium development with ten 20-storey towers located along Emilio Aguinaldo Highway, Tagaytay City. Towers 1 to 4 have a total of 2,874 units which were 89% sold as at 31 December 2013. Towers 1 and 2 were completed in August 2013. Tower 3 was completed in December 2013. Construction of Tower 4 began in April 2013 and is expected to be completed in 2015. Construction of Tower 5 started in October 2013. The other five towers had not started as at 31 December 2013.

M Place @ South Triangle

M Place @ South Triangle is a four 25-storey tower condominium in South Triangle, Quezon City. Tower A started construction on January 2011 and was completed in December 2013. Tower A comprises 827 units of which 88% were sold as at 31 December 2013. Tower B started construction in July 2011 and was completed in December 2013. Tower B comprises 912 units of which 73% were sold as at 31 December 2013. Tower C comprises 778 units of which 77% were sold as at 31 December 2013; construction of Tower C began in January 2012 and is expected to be completed in the fourth quarter of 2014. Tower D comprises of 920 units of which 48% were sold as at 31 December 2013. Construction of Tower D commenced in December 2011 and is expected to be completed in the fourth quarter of 2014.

Blue Residences

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

80% were sold as at 31 December 2013 and is expected to be completed in the first quarter of 2014.

Mezza II Residences

Mezza II Residences is a 38-storey residential condominium located just beside the first Mezza Residences in Quezon City. Construction of Mezza II started in December 2010. It comprises 1,324 units of which 59% were sold as at 31 December 2013 and is expected to be completed in September 2014.

Shine Residences

Shine Residences is a 22-storey residential condominium located in Pasig City. Construction of Shine Residences commenced in January 2013 and is expected to be completed in 2015. It comprises 892 units of which 76% were sold as at 31 December 2013.

Green Residences

Green Residences is a 50-storey residential condominium situated on Taft Avenue, Manila near De La Salle University. Construction of Green Residences started in August 2011 and is expected to be completed in the third quarter of 2015. Green Residences comprises 3,378 units, of which 89% were sold as at 31 December 2013.

Shell Residences

Shell Residences is a 16-storey residential and commercial condominium project and is located at the MOA Complex in Pasay City. It comprises four buildings with 3,093 residential units, of which 95% were sold as at 31 December 2013. Construction of Shell Residences commenced in May 2012 and is expected to be completed by the first quarter of 2015.

Breeze Residences

Breeze Residences is a 38-storey residential and commercial condominium project and is located along Roxas Boulevard in Pasay City. Breeze Residences comprises 2,133 units, of which 74% were sold as at 31 December 2013. Construction of Breeze Residences commenced in June 2013 and is expected to be completed by fourth quarter of 2015.

Grace Residences

Grace Residences is a residential condominium development with four towers located along Levi Mariano Avenue in Taguig City. Towers 1, 2 and 3 have a total of 2,452 units and were 58% sold as at 31 December 2013. Construction of Tower 1 started in May 2013 and is expected to be completed in December 2014. Construction of Tower 2 will commence in October 2013 and is expected to be completed in June 2016. The other two towers had not started as of 31 December 2013.

Trees Residences

Trees Residences is a residential condominium development with nineteen 7-storey towers located in Quezon City. Buildings 2, 3, 5, 6, 7 have a total of 1,769 units and were 19% sold as at 31 December 2013. Construction of Buildings 5, 6, 7 will commence in the first quarter of 2014. The project is expected to be completed by the fourth quarter of 2018.

Shore Residences

Shore Residences is a residential condominium development with four towers located at the MOA Complex in Pasay City. Shore residences comprises 5,709 units, of which 19% were sold as at 31 December 2013. Construction of Shore Residences will commence in the second quarter of 2014 and is expected to be completed by the first quarter of 2018.

For the year ended 31 December 2013, SM Prime launched four expansion projects: Grass Residences Phase 2 Tower 4, Wind Residences Tower 5, Grace Residences Tower 3 and Field Residences Building 4, and two new projects: Trees Residences in Quezon City and Shore Residences in the MOA Complex, Pasay City.

Land Bank

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

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

As of 31 December 2013, SM Prime owned or controlled, through its subsidiary SMDC, 156 hectares of undeveloped land for the development of its various projects. SM Prime believes this land bank is sufficient to sustain the next several years of development and sales.

The table below sets forth the locations of SM Prime's residential undeveloped land inventory as of 31 December 2013.

Location	**Area (sq. m.)**
Metro Manila	
Quezon City	228,887
Makati City	100,311
Pasay City	94,046
Parañaque City	86,866
Taguig City	2,489
Cainta Rizal	54,687
Las Piñas City	46,900
Mandaluyong	39,599
Valenzuela City	19,452
Manila	19,211
Metro Manila Total	**692,439**
Outside Metro Manila	
Batangas City	804,711
Davao City	62,300
Outside Metro Manila Total	**867,011**
Grand Total	**1,559,450**

SM Prime continually seeks to increase its raw land inventory in various parts of the Philippines for future residential development through direct acquisitions.

COMMERCIAL

SM Prime is engaged in the development and leasing of office buildings in prime locations in Metro Manila, as well as the operations and management of such buildings and other land holdings.

SM Prime's flagship project is the MOA complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor tenant and main attraction, among other commercial, business, and entertainment establishments within the estate. Most recently, a major attraction in the complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building that houses additional parking spaces as well as office levels. The MOA complex is also the site of SM Prime's signature business complex, the E-com Centers, a series of modern and iconic office buildings mostly targeting technology-based industries, BPO companies and shipping companies. Other similar office building developments catering to the BPO industry include the SM Cyber Buildings, a mix of build-to-suit and ready-to-use office spaces in Makati City, Quezon City, and soon in other emerging locations. SM Prime is also involved in the leasing and management of properties and buildings housing selected branches of SM Retail operations, such as its department stores and supermarkets, including the warehouses that support these various retail operations. SM Prime also manages the MOA complex.

As of the date of this Prospectus, SM Prime has three completed commercial properties and three ongoing commercial property development projects as discussed below:

Completed Commercial Properties

Two E-com Center

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

SM Makati Cyber One

SM Makati Cyber One is a four-storey office building with GFA of approximately 18,800 sq. m. The development rises along Zodiac Street corner Gil Puyat Avenue and is visible along major routes such as EDSA, Gil Puyat and the Kalayaan overpass. Current tenants of the building include Perimeter Internet Working Corporation, Bayantrade Inc. & ABM Computech Enterprises, K Force Global Solutions Inc. and Startek International.

SM Makati Cyber Two

SM Makati Cyber Two is a four-storey office building with GFA of approximately 16,900 sq. m. The development is along corners of Sen. Gil J. Puyat Avenue (Buendia)/Jupiter/Zodiac Streets, Makati City. The major tenant of the building is VXI Global Holdings B.V. (Philippines). SM Prime also owns the land SM Makati Cyber Two is built upon.

Future Commercial Developments

Five E-Com Center

Five E-com Center, which broke ground in the first quarter of 2012, is targeted for completion by the first quarter of 2015. Similar to its predecessor Two E-com Center, Five E-com Center will feature architectural designs of Miami-based firm Arquitectonica, with FS Lim & Associates as the local architect of record. The 15-level office building will cover a GFA of over 125,000 sq. m. and an estimated gross lettable area ("GLA") of 79,000 sq. m. Floor plates are at an average of 6,800 sq. m., one of the most expansive in the local office leasing market. Similar to Two E-com Center as well, Five E-com Center will also feature a mixed-use component on its fourth level podium.

Three E-Com Center

Three E-com Center will be a 15-storey office building with a three level parking podium and the ground level designed to cater the commercial and retail tenants. Similar to Two E-com Center and Five E-com Center, Three E-com Center will feature architectural designs of Miami-based firm Arquitectonica. The GFA is expected to be approximately 100,000 sq. m. The project is targeted to break ground by 2014.

SM Cyber Series

A new standalone office building development in the SM Cyber series, this future development will be a 15-level office building development located on a highly visible and prime 2,910 sq. m. owned property at the corner of EDSA and West Avenue. Dubbed SM Cyber West Avenue, the building will cover a GFA of more than 42,000 sq. m., with approximately 22,700 sq. m. of GLA for office space. The remaining leasable area in the ground and second levels will feature a SaveMore supermarket and other support retail and commercial establishments. Additionally, it will be linked via bridgeways to the SM North EDSA mall as well as nearby MRT stations. The project is targeted for completion by the first quarter of 2014 and is 100% committed for occupancy under two signed leases.

Makati Avenue Commercial Building

The building is located at Makati Avenue corner Anza St., Makati City with a GFA of 1,869 sg. m. The construction of the two-storey commercial building started in September 2013 and is expected to be completed by the third quarter of 2014.

Department Stores and Supermarkets

SM Prime also owns several department store and supermarket buildings with a total GFA of approximately 291,000 sq. m. The major tenant of these buildings is the SM Retail Group. The following table sets forth certain information regarding SM Prime's department store and supermarket buildings as at 31 December 2013:

Department Store	Location	Gross Floor Area (sq. m.)	Occupancy
SM Cubao	Quezon City	103,035	98%
SM Makati	Makati City	109,667	97%
SM Iloilo	Iloilo City	34,382	99%

Supermarkets (Hypermarket and Savemore)	Location	Gross Floor Area (sq. m.)	Occupancy
Caloocan	Caloocan City	12,011	100%
Del Monte	Quezon City	1,854	100%
Novaliches	Quezon City	5,123	100%
Tandang Sora	Quezon City	1,358	100%
Kamias	Quezon City	2,071	100%
P. Tuazon	Quezon City	2,082	100%
Adriatico	Manila City	14,769	100%
Pedro Gil	Manila City	1,379	100%
Jaro Iloilo	Iloilo City	3,759	100%

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

SM Prime also owns several warehouses with a total GFA of approximately 37,000 sq. m. and total lot area of approximately 65,000 sq. m. that are strategically located in various areas that support the retail operations.

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

Other Properties

SM Prime also owns several properties for future leasing or commercial project development including the following:

Laon Laan Property

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

Caloocan Lot

Caloocan lot is located at the corners of McArthur Highway/Samson Road/Gen. P. Valenzuela Street, Barangay 78, Zone 7, District 1, Caloocan City with a lot area of 1,400 sq. m.

San Miguel District Lot

San Miguel District lot is located at Carlos Palanca, San Miguel District, City of Manila with a lot area of 1,033 sq. m.

Jaro Lot

Jaro Lot is located at 98 E. Libertad, Jaro, Iloilo City and has a lot area of 2,561 sq. m.

Jetty terminal

SM Prime owns Jetty Terminal located in MOA Complex. SM Prime is currently developing a breakwater project to further improve the Jetty Terminal service.

Sky Ranch

SM Prime has also ventured into certain lifestyle-oriented mixed-use developments. Sky Ranch will be an entertainment venue in Tagaytay. The nearly four-hectare property is adjacent to the Taal Vista Hotel, and was developed to complement the hotel's strong presence as a well-known destination in the area. To maximize the site's premium views and distinctive natural environment, a social events venue is included which will be complemented by casual, family-style dining establishments, as well as a mini-amusement theme park for kids and other recreational facilities such as horseback riding. The property is currently operational but will be expanded further in 2014.

SM Arena

The SM Arena is a five-storey, first-class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events. The arena has a seating capacity of approximately 16,000. It occupies approximately two hectares of land and has a GFA of approximately 68,000 sq. m. It is adjacent to the upcoming South Parking Building of the MOA and is right in front of the SMX Convention Center Manila. The SM Arena is connected to a large platform parking plaza and park that will be built in between the SMX Convention Center Manila and the arena itself. Provisions for two future office blocks are also included in the arena's master plan.

Mall of Asia Arena Annex (Carpark)

MOA Arena Annex is an 11-storey building with total GFA of 95,273 sq. m. It is designed to serve the parking needs of MOA Arena with 1,469 parking slots from ground to 7th floor. The 8th to 11th floors, with approximately 30,000 sq. m., are leased out as office space. The current tenants are SM Affiliates occupying 16,000 sq. m. The remaining vacant spaces are scheduled to be occupied by a company in March 2014 and a BPO company in August 2014. The occupancy rate for the MOA Arena Annex for the nine months ended September 30, 2013 was 51%. This property is still awaiting certification from the Philippine Economic Zone Authority ("PEZA"). Occupancy is expected to rise after the receipt of such certification.

Tagaytay Lot

Tagaytay lot is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total land area of 117,992 sq. m., of which, 45,264 sq. m. was developed by SM Prime as "The Sky Ranch". The rest of the area is vacant. The Tagaytay Lot was unoccupied for each of the three years ended December 31, 2011, 2012 and 2013.

Corporate Office Buildings A to F

Corporate Office buildings are composed of Buildings A to F with a total GFA of 46,883 sq. m. Buildings A to E are leased to SM Affiliates while Building F is leased to Teletech Customer Care Management Corp. The occupancy rate for Corporate Office buildings A to F for the years ended December 31, 2011, 2012 and 2013 was 100%, 85% and 98%, respectively.

Tagaytay Resort and Development Corporation

Tagaytay lot is owned by Tagaytay Resort Development Corporation and is located along Gen. Emilio

Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total land area of 182,857 sq. m. As at 31 December 2013, 9,444 sq. m. of the total area is occupied by the Tagaytay building owned by SM Prime. The remainder of the property is currently vacant.

Tagaytay Building

Tagaytay Building is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total GFA of 19,394 sq. m. Its only tenant is Philippine Amusement and Gaming Corp. for a 25-year lease term ending on 2033. The occupancy rate for Tagaytay Building for each of the three years ended December 31, 201, 2012 and 2013 was 100%.

Prime Metroestate Inc. Properties

Prime Metroestate Inc. Properties acts as a landlord for the properties listed below and is part of SM Prime's commercial business unit. SM Prime holds a 60% interest in Prime Metroestate, Inc.

Cainta Lot

Cainta lot is located at Imelda Avenue, Cainta Rizal and Int. Imelda Avenue, Rosario, Pasig City with a total land area of approximately 41,000 sq. m. The property is leased by SM Food Retail Group.

Imus Lot

Imus lot is located at Anabu I-B Imus, Cavite with a total land area of approximately 37,000 sq. m. and is leased to SM Food Retail Group.

Novaliches Lot

Novaliches lot is located at Quirino Highway, Talipapa, Balintawak Quezon City with a total land area of approximately 30,000 sq. m. and is leased to SM Food Retail Group.

Sucat Lot

Sucat lot is located at East Service Road Sucat, Muntinlupa City with a total land area of approximately 40,000 sq. m. and is leased to SM Food Retail Group.

Tondo Lot

Tondo lot is located at Manila Harbour Center, Tondo, Manila City with a total land area of approximately 26,000 sq. m. and is leased to SM Food Retail Group.

Cebu Lot

Cebu lot is located at II-A; II-B & Lot 1; Along H. Cortes ext., Subangdaku, Mandaue City with a total land area of approximately 36,000 sq. m. and is leased to SM Food Retail Group.

Davao Lot

Davao lot is located at Km.7 McArthur Highway, Bangkal, Davao City with a total land area of approximately 34,000 sq. m. and is leased to SM Food Retail Group.

Land Bank

Prime Metroestate, Inc. has invested in various properties located in prime location across the Philippines. As of 31 December 2013, Prime Metroestate, Inc. owned 97,929 sq. m of land slated for future development.

The table below sets forth the locations of Prime Metroestate, Inc.'s land inventory as of 31 December 2013:

Location	**Area (sq. m)**
Caruncho St, Malinao, Pasig City	2,777
Brgy Villasis/Poblacion, Santiago City, Isabela	4,383
Palacio Real, Brgy Makiling, Calamba City	40,000
Rosario, Batangas	7,189
Barangay Bucandala, Imus, Cavite	34,283
Molo, Iloilo	9,297
Total	**97,929**

Competition

SM Prime's top competitors for commercial properties are Ayala Land and Megaworld. SM Prime believes its commercial business unit competes primarily on the location of the properties (proximity to schools, malls and public transportation) and aggressive pricing.

HOTELS AND CONVENTION CENTERS

SM Prime's hotels and convention centers business unit is operated through SM Hotels, formerly SM Hotels Corp., which was incorporated in April 2008. The primary purpose of SM Hotels is to develop and manage the various hotel and convention properties of SM Prime.

Hotels

The following table sets forth certain information regarding SM Prime's hotel properties for the periods indicated.

Name and Year Opened	**Number of Rooms**		**Total Revenue**
	As at December 31, 2013		**For the year 2013**
			(₱ millions)
Taal Vista Hotel (2003)	261		[●]
Radisson Blu Hotel Cebu (2010).	396		[●]
Pico Sands Hotel (2011)	154		[●]
Park Inn by Radisson Davao (2013)*	204		[●]

* Figures for the Park Inn by Radisson Davao are for the nine month period ended 31 December 2013 as the hotel opened in March 2013.

Taal Vista Hotel

Taal Vista is a 261 room hotel located in Tagaytay. The hotel is a short walk from the PAGCOR Casino. The hotel features a spa, outdoor pool, gym, restaurant and function rooms.

In 2009, Taal Vista Hotel's newly constructed east wing with 133 guest rooms (making it a total of 261 rooms) and a 1,000-seater ballroom became fully operational.

Radisson Blu Hotel Cebu

In the last quarter of 2010, SM Hotels launched the 400-room Radisson Blu Hotel in Cebu, the first hotel managed by Carlson International in the Asia-Pacific region to be classified under its "Blu" upscale hotel brand category. The property has been classified as a deluxe hotel category by the Department of Tourism ("DOT"), and its facilities include an in-house spa, fitness center, business center, 800-sq. m. swimming pool, club lounge, two ballrooms and a number of smaller meeting rooms. The hotel is strategically located beside SM City Cebu and is adjacent to the international port area.

Pico Sands Hotel

The Pico Sands Hotel opened in August 2011. This hotel is a 154 room resort-type hotel in Hamilo Coast in Nasugbu, Batangas. The hotel has an outdoor pool, fitness center, spa, bar, restaurant and meeting and banquet facilities.

Park Inn by Radisson Davao

In March 2013, the Park Inn by Radisson Davao opened an eight-storey, 204-room hotel located in Lanang, Davao City adjacent to SM Lanang. The hotel has an outdoor swimming pool, gym, fitness center, meeting rooms and a 24-hour dining restaurant bar and grill. The Park Inn brand is one of the hotel brands under Carlson International and is the largest mid-market brand for hotels under development in Europe.

Conrad Manila

SM Hotels intends to open a Conrad Hotel within the MOA complex in 2015. This hotel is expected to be a seven-storey hotel with approximately 347 guest rooms. The hotel is expected to feature a swimming pool, business center, fitness club, spa, three restaurants, ballroom and other function and meeting spaces.

Convention Centers

SMX Convention Center Manila

SMX Convention Center Manila, inaugurated in November 2007, is a three-storey structure with a GFA of 46,647 sq. m. with basement parking that can accommodate up to 400 cars and a leasable area of 21,000 sq. m. The building is made up of two large exhibit floors which can be divided into multiple exhibition and function halls. Meeting and break-out rooms are provided in support of trade and function requirements. SM Hotels intends for SMX Convention Center to serve as a venue for major conferences, trade exhibitions and shows and similar activities in Metro Manila.

SMX Convention Center Davao

SMX Convention Center Davao, the sister facility of SMX Convention Center Manila, is located on the third level of SM Lanang Premier Mall, which was inaugurated September 28, 2012. The facility has a total floor area of 7,835 sq. m., with 5,240 sq. m. of function space, divisible into three rooms, and a 1,292 sq. m. pre-function lobby with a concierge counter. This mixed-use complex is integrated with a 204-room hotel and is located 2.4 kilometers from Davao International Airport.

SMX Convention Center Taguig

SMX Convention Center Taguig is the third property under the SMX brand. Located inside the SM Aura Premier Mall, it has three function rooms and eight meeting rooms. The 6,358 sq. m. building is the first Leadership in Energy & Environmental Design-certified convention facility in the Philippines.

Megatrade Hall

Megatrade Hall, located inside SM Megamall, offers 3,878 sq. m. of flexible hall space for various types of events. This space can also be divided into three different halls, depending on the type of event and client requirements. An additional 336 sq. m. conference center is also available for meetings, conferences, and seminars.

Cebu Trade Hall

Cebu Trade Hall, located inside SM City Cebu, offers 1,810 sq. m. of hall space that is also divisible into three halls. An additional 255 sq. m. conference center, that can be divisible into three meeting rooms, is also available for smaller functions.

In addition, SM Hotels is assessing the feasibility of establishing additional conference centers, in conjunction with its mid-market hotels, by using existing land bank situated around SM Prime's existing malls.

Competition

The primary competitor's of SM Prime's existing hotels are the Marriot in Cebu, the Marco Polo Waterfront in Batangas and Seda Hotel in Davao. Once completed, the Conrad Manila is expected to compete with the Shangri-La Makati, Solaire and the Sofitel Manila. SM Prime's primary competitor for its convention centers is PICC Convention Center.

LEISURE AND RESORTS

SM Prime, through its subsidiary HPI, owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas. In addition, SM Prime, through Costa de Hamilo, is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu Batangas.

Tagaytay

SM Prime's properties are located primarily in the vicinity of the Tagaytay Highlands and Tagaytay Midlands golf clubs in Calamba in Laguna, Tagaytay City and Batangas. In 2002, HPI began the development of The Woodridge, a high-end multi-family condominium complex with an environmentally-sensitive "highlands rustic" design, located in Tagaytay Highlands. The Woodridge was completed and fully sold in 2006. In 2004, HPI began construction of another condominium project, The Horizon at Tagaytay Midlands, a 220-unit condominium development located beside the north fairways of the Tagaytay Midlands golf course. In 2007, HPI launched Woodridge Place 1, a 65-unit, 7-building condominium complex near The Woodridge, and The Hillside, a lots-only subdivision. In 2008, Woodlands Point, a subdivision of 60 log houses, was launched. In 2009, HPI launched Pueblo Real, a subdivision overlooking the Tagaytay Midlands golf course. In 2010, HPI introduced Woodridge Place Phase 2, a residential condominium project in Tagaytay Highlands area. Later in 2010, Sierra Lago was launched, which consists of a 185-lot residential development in the Tagaytay Midlands area. In 2012, HPI launched Aspenhills, HPI's first residential development in the Tagaytay Highlands area.

Residential Developments

SM Prime's past and present projects as of 31 December 2013 consist of the following:

The Woodridge Place Phase I at Tagaytay Highlands

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

The Hillside at Tagaytay Highlands

Site development for lots began in the fourth quarter of 2007 and was completed in December 2009. Approximately 94% of the 156 lots had been sold as at 31 December 2013.

The Woodlands Point at Tagaytay Highlands

SM Prime has completed site development and construction of 24 log houses, 22 of which have already been sold as at 31 December 2013.

The Horizon at Tagaytay Midlands

This is a medium-density residential condominium development located inside The Tagaytay Midlands mountain resort community. The development overlooks the Tagaytay Midlands golf course, Taal lake and Volcano in the west, Mt. Makiling in the south east and the mountain range of Batangas in the south. This has 6 buildings with 108 units of approximately 137 to 150 sq. m. each. The project was launched in 2004 and was fully completed and 86% sold as of 31 December 2013.

Pueblo Real at Tagaytay Midlands

The development is adjacent to The Horizon, situated on a six hectare property and has 86 lots with an average lot size of 400 sq. m. Approximately 69% of the lots had been sold as at 31 December 2013.

Woodridge Place Phase 2

This is a condominium project at Tagaytay Highlands that was introduced to the market in May 2010. This project consists of two mid-rise buildings with 177 condominium residential units with areas ranging from 85 to 212 sq. m. per unit. Approximately 52% and 16% of the units in the first and second towers, respectively, had been sold as at 31 December 2013.

Sierra Lago

This is a lot subdivision development located at Tagaytay Midlands that was launched in November 2010. This development has 185 lots with sizes of approximately 200 to 300 sq. m. Approximately 83% of the lots have been sold as at 31 December 2013.

Aspen Hills

Launched in the summer of 2012, this 27 hectare leisure lot development offers lot sizes from 320 to 800 sq. m. The surrounding village is expected to include the Meadows Community Clubhouse, the Little Ranch playground, the Sunshine Picnic Grove and Spinner's Trail. Approximately 21% of the lots have been sold as at 31 December 2013.

Land Bank

SM Prime owns 555 hectares of land located around the vicinity of Tagaytay Highlands International Golf Club in Tagaytay City, Cavite and Tagaytay Midlands Golf Club in Batangas.

The table below sets forth the location and area (in sq. m.) of SM Prime's land bank in the vicinity of Tagaytay as of 31 December 2013:

Properties	**Area**
Tanauan City Property	383,006
Talisay Property—Site I	1,330,034
Talisay Property—Site II	1,158,924
Talisay Property—Site III	136,823
Talisay Property—Site IV	211,061
Talisay Property—Site V	6,510
Talisay Property—Site VI-VII	100,237
Talisay Property—Site VIII	18,241
Talisay Property—Site IX-X	132,707
Tagaytay Midlands	820,009
Bgy Iruhin, Tagaytay City-Site I	547,534
Bgy Iruhin, Tagaytay City-Site II	303,319
Tagaytay Midlands	10,178
Bgy Iruhin	317,586
Tagaytay Midlands	78,821
TOTAL	**5,554,990**

Hamilo Coast

Pico de Loro is located in a 40-hectare valley within Hamilo Coast situated near mountains and a protected cove. Hamilo Coast features 13 coastal coves, a 31-kilometer coastline, and 5,900 hectares of land. The completed projects include the four-condominium cluster project, Jacana, Myna, Miranda and Carola, as well as club shares of Pico de Loro Beach and Country Club. The Pico Sands Hotel is also located on the Pico de Loro property. Pico de Loro is the first residential community at the Hamilo Coast property in Nasugbu Batangas.

Several facilities have been added at the beach of Pico de Loro Cove to enhance the experience of the residents, club members and guests. For improved accessibility from Metro Manila, a seasonal ferry service from the MOA is available, and the Nasugbu-Ternate road was completed in 2013. With the opening of the Nasugbu-Ternate road, the travel distance from Metro Manila to Hamilo Coast was shortened from approximately 133 kilometers, or 2.3 to 3 hours travel time, to approximately 73 kilometers, or 1.5 to 2 hours travel time.

In line with the objective of addressing the emerging local middle-income and upper-income markets and the goal of tapping the regional market, there are plans to widen the product offering of Costa del Hamilo by introducing projects adjacent to the existing development which will complement the development and enhance the beach resort living concept.

Costa del Hamilo's projects are listed below:

Jacana

Jacana is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It is comprised of two buildings, building A with six floors and building B with seven floors. Of the total 246 residential units, 93% were sold as of 31 December 2013. Construction of Jacana commenced in August 2007 and was completed in December 2009.

Myna

Myna is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total 246 residential units, 95% were sold as of 31 December 2013. Construction of Myna commenced in May 2008 and was completed in July 2010.

Carola

Carola is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total 248 residential units, 70% were sold as of 31 December 2013. Construction of Carola commenced in August 2009 and was completed in Aug 2012.

Miranda

Miranda is a residential and commercial condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Of the total of 248 residential units, 86% were sold as of 31 December 2013. Construction of Miranda commenced in August 2009 and was completed in October 2011.

Pico de Loro Beach and Country Club

Pico de Loro Beach and Country Club is a leisure facility located at Pico de Loro Cove. Costa del Hamilo, as developer, executed a deed of conveyance of the titles to the lots and buildings, and in return owns 4,000 shares, of which 30% were sold as of 31 December 2013. The beach club was completed and opened in 2009, while the country club was completed in June 2010.

Land Bank

Of the 40-hectare property bounded by Pico de Loro Cove, 19.6 hectares remain undeveloped for future residential and recreational development opportunities.

SM Prime intends to purchase additional land bank for development within the Hamilo Coast area in the near to medium term.

Competition

SM Prime's competes with other developers of leisure properties within a three hour drive of Metro Manila. Primary competitors include Landco and Ayala Land.

Retailing and Merchandising

SM Retail, Inc. ("SM Retail") was incorporated in June 2002 and started operations in January 2008 and is designated as the holding company for the Group's retail and merchandising operations.

On 31 July 2008, the SEC approved the increase in authorized capital stock of SM Retail from ₱0.1 million to ₱1,500.0 million. The increase was necessary to provide adequate capital to absorb the transfer of the retail merchandising operations to SM Retail. On 30 September 2008, the respective board of directors of SM

Retail and the Issuer entered into an agreement pursuant to which SM Retail issued 12,836,170 shares with par value of ₱100 per share, in exchange for the ownership interest of SMIC over SVI, SSMI, Marketwatch, MH Holdings, Sanford, Henfels, HMS, Romer and SM Mart. This resulted in the increase in ownership interest of the Issuer over SM Retail from 99% to 100%.

SM Retail organizes its retail and merchandising operations broadly into two categories: non-food retail operations and food retail operations. Non-food retail operations consist of the business of SM Department Stores conducted through the Department Store Companies (as defined below) and SM Mart. Food retail operations comprise the supermarkets, savemore, hypermarkets, WalterMart stores and wholesale businesses conducted through SVI, Sanford, SSMI and WSI, respectively.

SM Retail currently has a total of 241 stores consisting of 48 SM Department Stores, 39 supermarkets, 93 savemore stores, 39 SM Hypermarkets and 22 WalterMart stores as at 31 December 2013.

For the years ended 31 December 2011, 2012 and 2013, SM Retail (through its subsidiaries) contributed approximately 75.7%, [●] and [●] of the Issuer's consolidated revenues and approximately 30.5%, [●] and [●] respectively, of its consolidated net income. SM Retail (through its subsidiaries) comprised approximately 13.6%, [●] and [●] respectively, of the Issuer's consolidated total assets and approximately 12.6%, [●] and [●] respectively, of its consolidated total liabilities as at 31 December 2011, 2012 and 2013, respectively.

Non-food Retail Operations

The SM Stores

Introduction

The Group's retailing business began in 1945 when Mr. Henry Sy, Sr., the founder of the Group, first established a small shoe store in Carriedo, Metro Manila. The original Shoemart, incorporated in March 1960, was the Sy Family's first major step into the retailing business.

In 2001, five of the Group Stores were transferred to a subsidiary, SM Mart. Pursuant to a restructuring of the Issuer's department store business in 2002, SM Mart took over most of Shoemart's functions in managing the SM Department Stores, such as merchandising, marketing, advertising and certain other services for the SM Department Stores and the Group's Retail Affiliates. These support services together with all in-house products such as SM Card, gift card and gift cheque were later transferred to SM Retail in January 2008. As at 31 December 2013, in addition to the five SM Department Stores that are directly owned and operated by SM Mart, the Issuer also operates 43 SM Department Stores through 14 other subsidiaries (the "Department Store Companies"). The Group opened two additional SM Department Stores in 2013. These new stores are SM Aura Premier and SM BF Paranaque. The Group plans to open an average of three additional SM Department Stores for each year thereafter, subject to market conditions.

As at 31 December 2013, the Issuer, through SM Retail, owned 65% of SM Mart's issued share capital while the Sy Family owns the remaining 35%.

For the years ended 31 December 2011, 2012 and 2013, the Department Store Companies and SM Mart contributed approximately 31.7%, [●] and [●] respectively, of the Issuer's consolidated revenues and approximately 6.4%, [●] and [●] respectively, of its consolidated net income attributable to equity holders of the parent. The Department Store Companies and SM Mart comprised approximately 3.4%, [●] and [●] respectively, of the Issuer's consolidated total assets (excluding deferred tax) and approximately 5.6%, [●] and [●] respectively, of its consolidated total liabilities (excluding deferred tax) as at 31 December 2011, 2012 and 2013, respectively.

Selected Financial Information

The following table sets out combined selected non-consolidated financial information for the Department Stores Companies and SM Mart as at and for the years indicated [(1)]:

	As at and for the years ended December 31		
	2011	**2012**	**2013**
(in ₱ millions)			
Revenue			
Net Sales	63,192	67,786	[●]
Other Income	244	1,042	[●]
Cost and Expenses			
Cost of Sales	47,353	51,295	[●]
Operating Expenses	14,135	15,977	[●]
Net Income	1,354	1,555	[●]
Assets	15,441	17,656	[●]
Liabilities	12,475	14,556	[●]
Stockholders´ Equity	2,966	3,100	[●]

Notes:

(1) The financial information presented above includes the financial condition and results of operations of the five SM Department Stores directly operated by SM Mart.

SM Department Stores

For 50 years, the SM Department Stores have provided quality products and services at competitive prices and the Issuer believes that it has led mass-market fashion trends to meet the ever-changing needs of the Philippine public. It is the objective of the SM Department Stores to maintain their leadership in the marketplace, to be at the forefront of retail technology and to grow through consumer marketing and product diversification. The SM Department Stores' strategies involve providing value for money through the wide variety of quality merchandise sold at reasonable prices in order to achieve a high sales turnover.

Sales in the SM Department Stores are cyclical and driven by seasonality. Historically, sales have peaked during the Christmas period each year, with sales in the month of December comprising approximately 18% of sales for the entire year, and in May, prior to the opening of school in June.

Twenty (20) SM Department Stores are located in Metro Manila and twenty-eight (28) are located in the provinces. Five SM Department Stores are stand-alone stores (SM Quiapo, SM Cubao, SM Makati, SM Harrison and SM Delgado) and 43 SM Department Stores are based in the Malls. The land for the three SM Department Stores operated by the Issuer (SM Makati, SM Cubao and SM Delgado) is subleased from third parties through SM Prime, with the SM Quiapo and SM Harrison buildings also being leased. The shortest of these long-term leases expires in 2021. The remaining 43 SM Department Stores are leased from SM Prime pursuant to annual leases, apart from the SM North EDSA lease which is a 25-year term expiring in 2019.

Since the opening of SM North EDSA in 1985, and partly because mall-based department stores tend to enjoy higher customer traffic than stand-alone SM Department Stores, it has been the policy of the Group to establish an SM Department Store as an Anchor Tenant in every new Mall where there is sufficient floor space.

The Issuer's policy is to construct department stores in prime locations. It has opened two new SM

Department Stores in 2013 and, as of the date of this Offering Circular, one new SM Department Store in 2014. The Issuer plans to open three more SM Department Stores in 2015 and approximately average of three new SM Department Stores opening annually thereafter for the next few years, subject to market conditions.

A periodic review of sales per store is conducted regularly and, if needed, a reduction of the selling area of a store is implemented to improve sales productivity. Each SM Department Store is renovated approximately once every seven years.

Credit Card Sales

As part of SM Department Stores' efforts to promote the "SM" brand and provide its customers with additional shopping convenience, the SM Department Stores offer an "SM In-house Card", a credit card for SM Department Store customers and all Retail Affiliates. The "SM In-house Cards" are marketed by third parties who are required to fully guarantee the obligations of the cardholders with real estate or money market placements as collateral. SM Retail is responsible for administering this credit card programme. In addition, BDO also offers its customers a similar "SM In-house Card". Credit card sales attributable to the "SM In-house Card" and other major credit cards accounted for approximately 25% of SM Department Stores' total sales for the year ended 31 December 2013.

Operational and Management Support

SM Retail have provided operational support to all of the SM Department Stores, as well as to other retail stores affiliated with the Sy Family, such as Home World, Supplies Station, Inc., Baby Company, Ace Hardware, Watsons, Sports Central, Toy World, Signature Lines and Kultura. Such support includes merchandising, marketing and advertising, information technology, controllership, operations and human resource services. SM Retail levies a management fee for the provision of such services. In addition, each SM Department Store pays the Issuer a management fee for advisory and consultancy services, including legal, tax and treasury services.

Merchandising

SM Retail undertakes the merchandising for all the SM Department Stores and the Group's Retail Affiliates, as well as managing third party store consignors ("Store Consignors"). Each SM Department Store adopts a localization strategy based on demographic model and operates between 25 to 35 departments from apparel, shoes, accessories, home furnishings, hardware, stationery supplies, music, cosmetics to native handicrafts.

Part of the merchandise sold by each department is sourced by SM Retail from its pool of suppliers internally categorized as "preferred", "secondary" and "seasonal" and purchased outright for SM Department Stores. Outright inventory is owned by the SM Department Stores. The SM Department Stores' outright merchandise includes in-house private label brands such as SM Exclusive for Men, SM Basics and SM Smart Buys for basic staple items, Coco Cabana for Women, Gigi Amore Ladies Intimates, Salvatore Mann and Parisian for Men's and Ladies Shoes, respectively. These private label brands provide customers of the SM Department Stores with comparable quality as moderately priced alternatives to the higher priced branded items sold by Store Consignors and Major Consignors, as described below.

Store Consignors are basically distributors or licensees of national and global brands manufactured or distributed by the consignors. Store Consignors are allocated selling space based on their sales per square meter productivity. The Store Consignors own the inventory and the SM Department Stores' obligation to pay for the inventory arises only on sale of the goods. As at 31 December 2013, there were over 881 Store Consignors operating in the SM Department Stores. Some of the main Store Consignors include globally known brands such as Guess, Wrangler, Lee, Arrow, Triumph, Wacoal, Jockey, Nike, Adidas, Candies, Rayban, Victorinox, Samsonite, Disney and others.

In addition, SM Department Stores have areas which are operated and run by Major Consignors which are affiliated to the Group. Major Consignor merchandise within the SM Department Stores consists of merchandise that is sold by the Major Consignors under their respective brand names within SM Department Stores. The Major Consignors are allocated designated areas within the SM Department Stores and essentially operate and manage their respective speciality departments within the department store.

SM Retail seeks to maintain a good merchandise mix of sales made in the SM Department Stores on an outright basis, or via Store Consignors and Major Consignors to meet customers' needs and wants in terms of style, quality and price.

The SM Department Stores generate gross margins based on net sales from their Store Consignors and Major Consignors. The Issuer believes that the margins charged to the Store Consignors and Major Consignors are at levels comparable to others in the retailing industry taking into account volumes achievable in the stores. In addition, Store Consignors and Major Consignors are charged store reimbursable for operational facilities provided by the SM Department Stores.

In each billing cycle, Store Consignors are paid monthly, and Major Consignors are paid semi-monthly. The SM Department Stores indirectly recognizes the net sales and cost of sales of both the Store Consignors and the Major Consignors in its Financial Statements.

Store Consignors and Major Consignors constitute an important part of SM Department Stores, contributing more than 80% of sales realized by the SM Department Stores as at 31 December 2013.

Marketing

The SM Department Stores remain the leading retailers in the Philippines, carrying a full line of merchandise. All stores carry the full fashion merchandise range from Men's, Ladies and Children's apparel and footwear, to bags, accessories, as well as cosmetics, home furnishings and toys.

The SM Department Stores continue to offer a wide assortment of global and local brands along with private labels. Merchandise remains fashion forward, creating distinction/differentiation while maintaining commitment to a value-for-money proposition through competitive price points across different categories. Strategic focus remains on growth/development of in-house brands and private labels via continuous product innovations and aggressive promotional efforts, as well as strengthening of supplier base. To reinforce the SM Department Stores' position as the preferred one stop shop for consumers, the SM Business Center Operations has continually adding to its menu of products and services, as well as through aggressive recruitment of new public-private partners and biller-companies.

The SM Department Stores continue to strengthen their fashion image through regular roll-out of fashion collection highlights, seasonal campaigns such as summer, back-to-school, and Christmas, and fashion brand image campaigns. To cement their position further, SM Department Stores have actively participated in Philippine Fashion Week. The Group has tapped selected celebrities and media authorities as brand ambassadors to build strong affinity to its target markets. The SM Department Stores have engaged their consumers in the digital space via online tools such as Facebook, while growing their Twitter fanbase and exploring emerging sites such as Instagram and Pinterest.

SM Retail has continued to augment the Department Stores' value proposition through integrated "drive-to-store" efforts, using a variety of promotional methods including visual merchandising, multi store events and promotions, and social media engagements. Nationwide promotions across all departments are being implemented to include seasonal promotions and category highlights. Departmental campaigns bundle customer benefits with various purchase incentives. Merchandise themed sale events continue to be initiated in order to give freshness to the promotions calendar. Sale events are purposely timed to capitalise on auspicious calendar dates such as extended weekends due to local and national holidays. In parallel, the SM Department Stores have launched credit card promotions to tap the market for more affluent consumers and ease financial strain on the mass based clientele.

The SM Department Stores remain committed to improve their customer reach through store openings in city neighborhoods and fast-growing provincial cities, addressing the continued growth in customer demand for convenience and accessibility. The SM Department Stores will continue to support the SM Mall's expansion strategy, with the opening of SM BF Paranaque in Nov 2013 as the latest. In parallel, we continue to make ongoing improvements to our existing stores, with the aim of both improving aesthetics and increasing customer convenience. Current initiatives include the development of new and exciting store designs and innovative display fixtures meant to enhance the presentation of our merchandise collections.

SM Retail also continues to explore and implement new marketing efforts. The SM Advantage Card is the largest loyalty program in the Philippines with about 500 partner establishments nationwide and cardholder base of 8.7 million as at 31 December 2013. In 2005, the Group launched a program to provide discounts to shoppers using certain major credit cards at the SM Department Stores and 450 Petron outlets and currently has a strategic alliance with MasterCard. In 2007, SM Retail, in coordination with all major credit card companies, launched installment program for qualified purchases by the cardholders.

Suppliers

SM Retail coordinates and manages the sourcing of merchandise for the SM Department Stores and the Group's Retail Affiliates. The majority of the products carried by the SM Department Stores are made in the Philippines. The outright merchandise sold by SM Department Stores are directly sourced from local importers, distributors and manufacturers. Accordingly, the SM Department Stores are not directly exposed to foreign exchange risks on purchases of merchandise.

The SM Department Stores source their outright merchandise from over 3,000 active suppliers. SM Retail, through its merchandising team, has over the years developed close partnership with a large number of suppliers in the Philippines. However, SM has opened its doors for new potential suppliers. For the year ended 31 December 2013, SM Retail sourced approximately 80% of its merchandise by value from 20% of its suppliers. SM Retail does not rely on one supplier or a small group of suppliers and, for the year ended 31 December 2013, no single supplier supplied more than 2% of SM Retail's purchase orders by value.

For the year ended 31 December 2013, approximately 60% of SM Department Stores' outright purchases were made on credit with an average credit period of 60 days following delivery, with the balance comprising purchases made on a cash-on-delivery basis (which entitles the SM Department Stores to a minimum of a 5% reduction in the purchase price) or a credit period of between 15 to 45 days from the date of delivery with a 2% to 5% discount. Upon the issuance of the relevant purchase order, SM Retail's suppliers generally deliver the ordered products within 30 to 45 days for new and repeat order products that need to be manufactured, and within five days for ready-made products in stock. The SM Department Stores reserve the right to return defective goods subject to an agreed minimum return amount. For the year ended 31 December 2013, less than 2% of SM Department Stores' outright purchases by value were returned. SM Department Stores generally will give written notice to the relevant supplier to collect the defective item and payment for the defective item is automatically deducted by SM Department Stores when they pay for that order or their next order with the supplier, depending on when the defect is detected.

Competition

The retailing industry is very competitive, and this is no different in the Department Store format. Strong Local players: Rustans, Robinsons, Landmark and the Gaisano Group in the Southern Philippines have been equally aggressive in their expansion programs in key cities nationwide. In recent years, we have also seen the entry of large Mono Branded fast fashion retailers: Zara, Forever 21, and Uniqlo that are gaining share in the apparel business.

In spite of the expansion of established Department Store chains as well as the entry of foreign brands, the SM Store has maintained its market leadership in the Department store format. This can be attributed to product innovations, new brand entries, and the growth of in-house brands that make the offerings of the store unique to competition. Moreover, innovative store designs and improved customer service and amenities ensure that the SM Store is a cut above the rest of the retailers in the country. These improvements in the brand mix of The SM Store have garnered recognition from local and International Associations. Testament to this is the Best of the Best Award from Retail Asia for the past five consecutive years, and the elevation of The SM Store as a Hall of Fame Awardee.

Food Retail Operations

SM Supermarkets

Introduction

SVI was established in 1985. SVI was previously a Retail Affiliate of the Issuer, but was acquired by the Issuer from the Sy Family and a non-controlling partner with effect from June 2006 through a share-swap agreement.

SVI currently operates 39 SM Supermarkets and four distribution centers. It opened its first supermarket in Ayala Center, Makati and has since expanded nationwide, with 15 branches in Metro Manila. The Issuer opened two additional supermarkets in 2013, with plans to open one to two additional supermarkets for each of the next few years thereafter, subject to market conditions. On 1 January 2010, SVI sold the 20 SaveMore Market stores to an affiliate, Sanford.

The Issuer, through SM Retail, owns 100% in SVI's issued share capital.

For the year ended 31 December 2013, SVI's revenues (comprising sales and other income) increased by [●]% to ₱[●] million (₱40,675 million in 2012) mainly due to the opening of two additional stores. As at 31 December 2013, SVI had 10 million authorized and outstanding shares at a par value of ₱100 per share. In 2011, SEC approved the ₱500 million increase in authorized capital stock through the issuance of stock dividend.

Selected Financial Information

The following table sets forth selected financial information of SVI as at and for the periods indicated:

	As at and for the years ended 31 December		
	2011	2012	2013
(in ₱ millions)			
Sales	38,666	39,861	[●]
Cost of sales	30,093	29,912	[●]
Gross profit	8,573	9,949	[●]
Selling and administrative expenses	6,607	7,419	[●]
Other Operating expenses	152	150	[●]
Other income	1,378	814	[●]
Income before income tax	3,192	3,194	[●]
Net income	2,413	2,287	[●]
Assets	11,754	11,223	[●]
Liabilities	9,222	9,404	[●]
Equity	2,532	1,819	[●]

As at the date of this Prospectus, SVI has no outstanding bank debt and its operations and expansion plans to date have been primarily supported through internally generated funds.

Operations

The supermarkets carry an extensive line of food and household products, with over 40,000 stock-keeping units ("SKU") on hand. Additionally, all supermarkets host other product ranges such as pharmacies, bakeries, photo shops, wine and liquor stores, Chinese delicatessens, snack and ice cream kiosks. Certain shops also carry furniture, apparel, shoes, books and a home center. As with SM Department Stores, sales in the SM Supermarkets are cyclical and driven by seasonality.

SVI's 39 "SM Supermarket" stores are located within SM Malls.

The product mix in the supermarkets is a combination of local and imported goods. However, as the majority of imported goods are purchased locally in the Philippines, there is no foreign exchange risk. Furthermore, all purchases are Peso-denominated. SVI has approximately 2,098 active suppliers.

The Issuer plans to open one SM supermarket in 2014, with approximately two new supermarkets opening annually thereafter for the next few years, subject to market conditions. The following table sets forth the SM Supermarket that the Issuer plans to open, its location and projected date of opening:

Location of SM Supermarkets	Location	Projected Date of Opening
Cauayan, Isabela	Within SM Mall	2nd quarter of 2014

Operational and Management Support

SVI relies on an experienced management team to keep its advantage over its competitors. Members of senior management have combined retail experience of more than 30 years.

Each supermarket is handled by a store manager who supervises a maximum of three stores. Day-to-day operations are handled directly by an assistant store manager and officer-in-charge. The store managers report directly to the operations managers who also serve as the link to the national head office support department and services. There are currently eight operations managers who are assigned to specific areas in the Philippines and report directly to two Assistant Vice Presidents for Operations.

Merchandising

SVI undertakes the merchandising and approves the merchandise sold by third party store consignors ("Supermarket Consignors"). The majority of the merchandise carried by each department is sourced by SVI and purchased outright from distributors and manufacturers. The SM Supermarkets' outright merchandise includes in-house brands such as "SM Bonus". These in-house brand products provide customers of the SM Supermarkets with quality, moderately-priced alternatives to the more expensive branded items sold by Supermarket Consignors. Approximately 7% of SM Supermarkets' sales are from these in-house products.

SM Supermarkets' product mix is generally categorized as follows:

Product	As a Percentage of Total Products Sold in SM Markets
Fresh	28%
Food	66%
Dry goods	6%
Total	100%

Supermarket Consignor merchandise consists of branded merchandise manufactured or distributed by Supermarket Consignors. Supermarket Consignors are allocated a portion of the selling area within the relevant departments of the SM Supermarket to sell their merchandise. Supermarket Consignors are responsible for their own inventory at the store and SVI's obligation is to pay for the portion of inventory already sold. As at 31 December 2013, there were 873 Supermarket Consignors operating in the SM Supermarkets.

SVI seeks to maintain a balanced mix of sales made in the SM Supermarkets on an outright basis, or via Supermarket Consignors. One of the main considerations for SVI when approving Supermarket Consignors' items for sale in the SM Supermarkets is the products' salability, handling and merchandising. This is to ensure that such items meet SM's standards in terms of pricing, design and quality.

SVI charges its Supermarket Consignors a margin based on net sales. Such margin is determined according to the categories of products being sold. SVI indirectly recognizes the net sales and cost of sales of the Supermarket Consignors in its financial statements.

Supermarket Consignors constitute an important part of the business of SM Supermarkets; the percentage of outright sales and consignments sales is approximately 67% against 33% of SM Supermarket's net sales for the year ended 31 December 2013.

Suppliers

The SM Supermarkets source their outright merchandise from over 1,000 suppliers. Although SVI, through its merchandising managers, has, over the years, developed close relationships with a large number of suppliers in the Philippines, it does not have any long-term supply agreements with any supplier. This policy is to ensure that SVI is able to source merchandise from a broad range of suppliers at competitive prices. All products supplied by such suppliers are purchased by SVI pursuant to the terms of the relevant purchase order. During the year ended 31 December 2013, SVI sourced approximately 33% of its merchandise by value from its top 10 suppliers. SVI does not rely on one supplier or a small group of suppliers and, for the year ended 31 December 2013, no single supplier supplied more than 8% of SVI's purchase orders by value.

For the year ended 31 December 2012 and 2013, all of SVI's outright purchases were made on credit with an average credit period of 30 days following delivery. SVI offers a credit period ranging from one to seven days from the date of delivery with a 3% to 4% discount to as long as 90 days from the date of delivery with no discount. Upon the issuance of the relevant purchase order, SVI's suppliers generally deliver the ordered products within 15 to 30 days. SVI retains the right to return defective goods subject to an agreed minimum return price. All fresh produce is delivered to the relevant SM Supermarkets by the suppliers directly.

Centralized Services and Distribution

Centralized services include planning and forecasting, budgeting, internal audit, site development, policy and procedures formulation, training and development, staffing and capital expenditures, technology development, risk management, central approval of purchases and disbursements and processing of store set-ups.

SVI has a national distribution center network with the main center located in Sucat, Parañaque and three regional centers that service Iloilo, Cebu and Davao. The main center, which was established in 2002 at an estimated cost of ₱500 million, was able to address the supermarkets' stock-out problem and has increased sales. This current distribution network can handle up to 100 supermarket and hypermarket sites. In 2012, an extension in the main centre in Sucat, Parañaque was built at an estimated cost of P200 million to service additional stores.

In 2000, SVI implemented a SAP system that enabled it to increase efficiency and reduce costs by reducing manpower and stock levels. It also enabled SVI to decrease its store opening time frame from six months to one month due to the implementation of a standard store set-up plan and better data evaluation and prompt implementation of strategies. In addition, the SAP system facilitated faster collection of receivables.

Marketing

SM Supermarkets had regular as well as seasonal promotions to increase sales and provide additional shopping incentives. The initiatives include the yellow tag special, five-day sale, SWIPE promos and launch pad, among others.

Competition

SM Supermarkets' competitors include national and regional supermarket chains, independent and specialty grocers, drug and convenience stores, warehouse club stores, deep discount drug stores and supercenters. Supermarket chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. SM Supermarkets regularly monitors its competitors' prices and adjusts its prices and marketing strategy as management deems appropriate in light of existing conditions.

The other major players in the industry include Puregold, Robinson's Supermarket, Shopwise and Gaisano Supermarkets, WalterMart, SM Hypermarkets and SaveMore Markets.

SaveMore Markets

Introduction

Sanford Marketing Corporation, formerly Sanford Investments Corp., a holding company, was registered with the SEC on September 2000. In November 2009, Sanford Investments amended its corporate name, primary purpose, articles of incorporation and principal place of business to fit its purpose to operate "SaveMore Markets", a modernised neighbourhood or community store.

As at 31 December 2013, Sanford operated 93 SaveMore Markets. It opened its first SaveMore Market in Taft Ave. cor. T.M. Kalaw St., Ermita in October 2009. On 1 January 2010, 20 SaveMore Markets that were previously owned by SVI, a related party, were sold to Sanford. In 2011, 2012 and 2013 Sanford opened 25, 18 and 15 SaveMore Markets respectively, bringing the total to 93 stores. The Issuer plans to open 10 - 15 additional SaveMore Markets annually, subject to market conditions.

The Issuer, through SM Retail, owns 99.6% in Sanford's issued share capital.

For the year ended 31 December 2013, Sanford's issued share capital amounted to ₱1.2 billion. For the year ended 31 December 2013, Sanford's revenues (comprising sales and other income) for the 93 SaveMore Markets amounted to ₱[●] billion. As at 31 December 2013, Sanford had 12,000,000 authorized and outstanding shares at a par value of ₱100 per share.

Selected Financial Information

The following tables set forth selected consolidated financial information of Sanford as at and for the periods indicated:

	As at and for the year ended		
	2011	**2012**	**2013**
(in ₱ millions)			
Sales	16,444	21,054	[●]
Cost of Sales	11,731	14,772	[●]
Gross profit	**4,713**	**6,282**	[●]
Selling and administration expenses	3,925	5,135	[●]
Other operating expenses	—	-	-
Other Income (dividend income)	283	288	[●]
Income before income tax	1,038	1,435	[●]
Net income	**727**	**1,005**	[●]
Assets	**7,688**	**9,810**	[●]
Liabilities	**5,414**	**7,547**	[●]
Stockholders' Equity	**2,274**	**2,263**	[●]

As at 31 December 2013, Sanford has outstanding bank debt of ₱2.2 billion.

Operations

The SaveMore Markets carry an extensive line of food and household products, with a low of 15,000 SKU on hand for small stores to a high of 30,000 SKU on hand for big stores. Additionally, all SaveMore Markets host other product ranges such as pharmacies, bakeries, photo shops, wine and liquor stores, Chinese delicatessens, snack and ice-cream kiosks. Certain shops also carry appliances, furniture, apparel, shoes, magazines and a home centre. SaveMore Markets also offer services such as foreign exchange and bills payment. As with SM Department Stores, sales in the SaveMore Markets are cyclical and driven by seasonality.

Out of Sanford's 93 SaveMore Markets, 38 are mall-based (located within malls), 2 are condo-based and the remaining 53 are stand-alone as at 31 December 2013.

The product mix in the SaveMore Markets is a combination of local and imported goods. However, as the majority of imported goods are purchased locally in the Philippines, there is no foreign exchange risk. Furthermore, all purchases are Peso-denominated. Sanford has approximately 1,900 active suppliers.

The following table sets forth the SaveMore Markets that the Issuer plans to open, their location and projected date of opening:

Location of SaveMore Market	Location	Projected Date of Opening
Savemore Gensan	General Santos	February 11, 2014
Savemore Sta Cruz	Pagsawitan, Sta. Cruz Laguna	March 13, 2014
Savemore Candon	Candon, Ilocos Sur	March 2014
Savemore San Pedro 1	San Pedro, Laguna	March 2014
Savemore Santiago 2	Mabini, Santiago City	May 2014
Savemore Bayombong	Bayombong Nueva Viscaya	May 2014
Savemore Solano 2	Barangay Quirino, Nueva Viscaya	May 2014
Savemore Carcar	Carcar, Cebu City	June 2014
Savemore La Trinidad	La Trinidad, Benguet	Second Half 2014
Savemore Dinalupihan	Dinalupihan, Bataan	Second Half 2014
Savemore Bambang	Bambang Nueva Viscaya	Second Half 2014
Savemore Light Residence	Boni, Mandaluyong City	Second Half 2014
Savemore Binangonan	Binangonan, Rizal	Second Half 2014
Savemore Agora	Agora, Lucena City	Second Half 2014
Savemore Muzon	San Jose Del Monte	Second Half 2014

Operational and Management Support

Sanford relies on an experienced management team (from SVI) to maintain its market position. Members of senior management have combined retail experience of more than 30 years. Each SaveMore Markets is handled by a store manager who supervises a maximum of three stores. Day-to-day operations are handled directly by an assistant store manager and officer-in-charge. The store managers report directly to the operations managers who also serve as the link to the national head office support department and services. There are currently six operations managers who are assigned to specific areas in the Philippines and report directly to the President of Operations. Assisting the President of Operations is one Assistant Vice President.

Merchandising

Sanford undertakes the merchandising and approves the merchandise sold by third-party store consignors ("SaveMore Consignors"). The majority of the merchandise carried by each department is sourced by Sanford and purchased outright from distributors and manufacturers. The SaveMore Markets' outright merchandise includes in-house brands such as "SM Bonus". These in-house brand products provide customers of the SaveMore Markets with quality as moderately priced alternatives to the more expensive branded items sold by SaveMore Consignors. Approximately 9.48% of SaveMore Markets' sales are of these in-house products.

Sanford's product mix is generally categorized as follows:

Product	As a Percentage of Total Products Sold in SaveMore Markets
Fresh	30.01%
Food	64.66%
Dry goods	5.33%
Total	100.00%

SaveMore Consignor merchandise consists of branded merchandise manufactured or distributed by SaveMore Consignors. SaveMore Consignors are allocated a portion of the selling area within the relevant departments of the SaveMore Market to sell their merchandise. SaveMore Consignors are responsible for their own inventory at the store and Sanford's obligation is to pay for the portion of inventory already sold. As at 31 December 2013, there were over 658 SaveMore Consignors operating in the SaveMore Markets.

Sanford seeks to maintain a balanced mix of sales made in the SaveMore Markets on an outright basis, or via SaveMore Consignors. One of the main considerations for Sanford when approving SaveMore Consignors' items for sale is the products' saleability, handling and merchandising. This is to ensure that such items meet SM's standards in terms of pricing, design and quality.

Sanford charges its SaveMore Consignors a margin based on net sales. Such margin is determined according to the categories of products being sold. Sanford indirectly recognises the net sales and cost of sales of the SaveMore Consignors in its financial statements.

SaveMore Consignors constitute an important part of the business of SaveMore Markets; the percentage of outright sales and consignments sales is approximately 68% against 32% of SaveMore Market's net sales for year ended 31 December 2013.

Suppliers

The SaveMore Markets source their outright merchandise from over 1,336 suppliers. Although Sanford, through SVI's merchandising managers, has, over the years, developed close relationships with a large number of suppliers in the Philippines, it does not have any long-term supply agreements with any supplier. This policy is to ensure that Sanford is able to source merchandise from a broad range of suppliers at competitive prices. All products supplied by such suppliers are purchased by Sanford pursuant to the terms of the relevant purchase order. During the year ended 31 December 2013, Sanford sourced approximately 44.2% of its merchandise by value from its top 10 suppliers. Sanford does not rely on one supplier or a small group of suppliers and, for the year ended 31 December 2013, no single supplier supplied more than 12.8% of Sanford's purchase orders by value.

For the year ended 31 December 2012 and 2013, all of Sanford's outright purchases were made on credit with an average credit period of 30 days following delivery. Sanford offers a credit period ranging from one to seven days from the date of delivery with a 3% to 4% discount to as long as 90 days from the date of delivery with no discount. Upon the issuance of the relevant purchase order, Sanford's suppliers generally deliver the ordered products within 15 to 30 days. Sanford retains the right to return defective goods subject to an agreed minimum return price. All fresh produce is delivered to the relevant SaveMore Markets by the suppliers directly.

Centralized Services and Distribution

Centralized services include planning and forecasting, budgeting, internal audit, site development, policy and procedures formulation, training and development, staffing and capital expenditures, technology development, risk management, central approval of purchases and disbursements and processing of store set-ups.

Sanford shares a national distribution centre network with SVI with the main centre located in Sucat, Parañaque and two regional centres that service Iloilo and Cebu. The current distribution network can handle up to 100 supermarket and hypermarket sites.

Marketing

SaveMore Markets have regular as well as seasonal promotions to increase sales and provide additional shopping incentives. The initiatives include the yellow tag special, bag-a-bonus, three-day sale and special display sections known as launch pads, among others.

Competition

SaveMore Markets' competitors include national and regional supermarket chains, independent and speciality grocers, drug and convenience stores, warehouse club stores, deep discount drug stores and super centers. Supermarket chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. SaveMore Markets regularly monitors its competitors' prices and adjusts its prices and marketing strategy as management deems appropriate in light of existing conditions.

The other major players in the industry include Puregold, Robinson's Supermarket, Shopwise, Gaisano Supermarkets and SM Supermarkets.

SM Hypermarkets

Introduction

SSMI was established in 2001. SSMI was previously a Retail Affiliate of the Issuer but was acquired by the Issuer with effect from 6 June 2006 through a share-swap agreement.

SSMI operates its hypermarkets under the brand "SM Hypermarket". It opened its first hypermarket in SM City Sucat in 2001. The newest SM Hypermarket store which opened in 2013 was located in FTI-Taguig.

As at 31 December 2013, the Issuer directly owns 99.99% in SSMI's issued share capital through SM Retail.

For the year ended 31 December 2013, SSMI's revenues (comprising sales and other income) increased by [●]% to ₱[●] billion (₱28.617 billion for the same period in 2012). Net income decreased from ₱1,131.0 million for the year ended 31 December 2012 to ₱[●] million for the year ended 31 December 2013, representing a decline of [●]%.

As at 31 December 2013, SSMI had an authorized capital stock of 5 million shares, with 5 million shares issued and outstanding. The par value is ₱100 per share.

Selected Financial Information

The following table sets forth selected financial information of SSMI as at and for the periods indicated:

	As at and for the years ended 31 December		
	2011	2012	2013
(in ₱ millions)			
Sales	26,725	28,396	[●]
Cost of sales	19,937	20,568	[●]
Gross profit	6,788	7,828	[●]
Selling and administrative expenses	5,674	6,654	[●]
Other Income	380	433	[●]
Income before income tax	1,494	1,607	[●]
Net Income	1,057	1,131	[●]
Assets	8,124	9,813	[●]
Liabilities	7,430	7,987	[●]
Equity	694	1,826	[●]

SSMI's initial capital investment was ₱100 million. The company as at 31 December 2013 has an external bank loan of ₱1.35 billion and all future site openings are expected to be funded using internally generated funds and external borrowings.

Operations

SM Hypermarkets provide one-stop shopping convenience specially designed to meet the growing needs of the shoppers. The hypermarkets offer a wide range of products covering groceries, health and beauty products, shoes, ready-to-wear apparel, furniture, appliances, hardware, kitchenware, toys, office supplies, bakery products, wine and liquor. They also offer services such as foreign exchange and bills payment. As with SM Department Stores, sales in the SM Hypermarkets are cyclical and driven by seasonality.

All SM Hypermarkets have modern, spacious facilities, customer friendly display racks and more than 40 check-out lanes each. What makes SM Hypermarkets distinctive for consumers is that they sell food, fresh and frozen items such as those found in a conventional supermarket, as well as general merchandise products found in conventional department stores.

SM Hypermarkets also offer services such as delivery services and price verifier kiosks.

The Issuer plans to open more SM Hypermarkets both within Malls and on a stand-alone basis. After opening 2 SM Hypermarkets in 2013, it currently plans to open 3 SM Hypermarkets in 2014. It intends to open at least 3 new SM Hypermarkets annually thereafter for the next few years, subject to market conditions. The following table sets forth the SM Hypermarkets that the Issuer plans to open, their location and projected date of opening:

Location of SM Hypermarket	Location	Projected date of Opening
Daet	Camarines Norte	February 2014
Sun Residences	Quezon City	2nd Quarter 2014
Rosario	Cavite	4th Quarter 2014

Operational and Management Support

The management team of SSMI has significant local and international work experience in the hypermarkets business. In addition, SMIC and SSMI entered into an agreement whereby SMIC provides various services of the key management personnel to SSMI for which SMIC receives a management fee equivalent to a certain percentage of SSMI's net sales.

Merchandising

SM Hypermarkets' merchandise is a mix between local and imported goods, with over 30,000 SKUs. SSMI undertakes the merchandising and also approves the merchandise sold by third-party store consignors ("Hypermarket Consignors"). Part of the merchandise carried by each department is sourced by SSMI and purchased outright by the SM Hypermarkets. SM Hypermarkets' outright merchandise includes in-house brands such as "SM Bonus". These in-house products provide customers of the SM Hypermarkets with quality, moderately priced alternatives to the more expensive branded items sold by Hypermarket Consignors. Approximately 5% of SM Hypermarkets' sales is of these in-house products.

SM Hypermarkets' product mix is generally categorized as follows:

Product	**As a Percentage of Total Products Sold in SM Hypermarkets**
Fresh and Frozen	27%
Food	56%
Non-Food	17%
Total	100%

Hypermarket Consignor merchandise consists of branded merchandise manufactured or distributed by Hypermarket Consignors. Hypermarket Consignors are allocated a portion of the selling area within the relevant departments of the SM Hypermarkets to sell their merchandise. Hypermarket Consignors are responsible for their own inventory and the SSMI's obligation is to pay for the portion of inventory already sold. As at 31 December 2013, there were over 730 Hypermarket Consignors operating in the SM Hypermarkets.

SSMI seeks to maintain a balanced mix of sales made in the SM Hypermarkets on an outright basis, or via Hypermarket Consignors. One of the main considerations for SSMI when approving the Hypermarket Consignors' items for sale in the SM Hypermarkets is the products' salability, handling and merchandising. This is to ensure that such items meet SSMI's standards in terms of pricing, design and quality.

SSMI charges its Hypermarket Consignors a margin based on net sales. Such margin is determined according to the categories of products being sold. SSMI indirectly recognizes the net sales and cost of sales of the Hypermarket Consignors in its financial statements.

Hypermarket Consignors constitute an important part of the business of SM Hypermarkets; the percentage of outright sales and consignments sales is approximately 61% against 39% of SM Hypermarkets' net sales as at 31 December 2013.

Suppliers

The SM Hypermarkets source their outright merchandise from approximately 800 suppliers. Although SSMI, through its merchandising managers, has, over the years, developed close relationships with a large number of suppliers in the Philippines, it does not have any long-term supply arrangements with any supplier. This policy is to ensure that SSMI is able to source merchandise from a broad range of suppliers at competitive prices. All products supplied by such suppliers are purchased by SSMI pursuant to the terms of the relevant purchase order. For the year ended 31 December 2012 and 2013, SSMI sourced approximately 80% of its merchandise by value from 12% of its suppliers. SSMI does not rely on one supplier or a small group of suppliers and, for the year ended 31 December 2013, no single supplier supplied more than 12% of SSMI's purchase orders by value.

For the year ended 31 December 2012 and 2013, approximately 77% of SSMI's outright purchases were made on credit with an average credit period of 30 days following delivery, with the balance comprising purchases made on a cash-on-delivery basis, a self-remittance term ("SRT") basis, for a period of up to three days, a credit period of up to seven days, or a statement based billing system ("SBBS") basis for a period of up to 30 days, from the date of delivery with a 3% to 4% discount. Upon the issuance of the relevant purchase order, SSMI's suppliers generally deliver the ordered products within 15 to 30 days. SSMI retains the right to return defective goods subject to an agreed minimum return amount. All fresh produce is delivered to the relevant SM Hypermarket by the suppliers directly.

Centralized Services and Distribution

Centralized services include planning and forecasting, budgeting, internal audit, site development, policy and procedures formulation, training and development, staffing and capital expenditures, technology development, risk management, central approval of purchases and disbursements and processing of store set-ups.

SSMI started its crossdocking services with SVI during the fourth quarter of 2007 to serve its suppliers better through centralized receiving and distribution of merchandise. The crossdocking services are located in an offsite warehouse located in Sucat, Parañaque which it leases from SVI. The gross area leased is 11,763 square meters.

In addition, SSMI also leases a warehouse near its crossdocking facilities from SVI for the purpose of storing its value pack items. The gross area leased is 804 square meters.

In October 2007, SSMI implemented a SAP system that enabled it to increase efficiency and reduce costs by reducing manpower and stock levels. It also enabled SSMI to decrease its store opening time frame from six months to one month due to the implementation of a standard store set-up plan and better data evaluation and prompt implementation of strategies. In addition, the SAP system facilitated faster collection of receivables.

Marketing

SM Hypermarkets have regular as well as seasonal promotions to increase sales and provide additional shopping incentives. The initiatives include the mailer items, "Shop 'N Win", value packs, "Scratch & Win", and three-day sales among others. SSMI also has a loyalty program (via the SM Advantage Card) as well as various other promotions to boost sales.

Competition

SM Hypermarkets' competitors include national and regional supermarket chains, independent and speciality grocers, drug and convenience stores, warehouse club stores, deep discount drug stores and supercentres. Hypermarket chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. SM Hypermarkets regularly monitor their competitors' prices and adjust their prices and marketing strategy as management deems appropriate in light of existing conditions. Other local players in the hypermarket format include Makro, Puregold, Robinsons, Shopwise and S&R.

The Issuer believes that future competition from the major foreign competitors is not likely given that the Philippine market may not be large enough for these companies to achieve economies of scale. However, one potential source of foreign competition may be from secondary players in China, which may decide to enter the Philippine market given the high level of competition in the China domestic market.

Financial Services

BDO Unibank, Inc.

BDO Unibank, Inc. is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust banking, investment banking, private banking, cash management, leasing and finance, remittance, insurance, retail cash cards and credit cards.

The Bank grew through a series of mergers and acquisitions, the largest of which was the merger between Banco de Oro Universal Bank, Inc. and EPCIB, which took effect on May 31, 2007. As ofDecember 31, 2013, the Bank ranked as the number one bank in the Philippines in terms of total assets, gross customer loans, deposits, capital and total trust funds under management. Its consolidated total assets stood at ₱[●] trillion while total capital funds stood at ₱[●] billion as of December 31, 2013.

The Bank's principal markets are the top-tier corporate market, the middle-market banking segment (consisting of medium-sized corporations and small- and medium-size enterprises ("SMEs")) and the retail/consumer market. The Bank's customers are based primarily in the Philippines and include large multinational corporations with local operations. As of December 31, 2013, the Bank had an operating network of 795 domestic branches and one foreign branch (in Hong Kong), with 39 more domestic branch licenses for deployment. Its network includes 14 overseas remittance offices and 2,164 automated teller machines ("ATMs"). The Group is the Bank's largest shareholder group, with an equity interest of approximately 57.6% of the Bank's issued share capital.

As of [14 February 2014], the Bank had a market capitalization on the Philippine Stock Exchange ("PSE") of approximately [₱286,470] million.

The Bank has a Bank Financial Strength Rating of D+ and a Baa3 rating for its long-term local currency bank deposits from Moody's Investor Services. The Bank also has an Issuer/Debt Rating (long-term) of BB+ from Fitch Ratings.

Business Strategies

To attain its objectives, the Bank implements its core business strategies focused on three areas as follows:

- To build a strong, diversified and sustainable earnings stream through focused loan growth and branch expansion (for a diversified asset and funding mix), as well as the steady stream of recurring income from its fee-based service businesses;

- To create operating leverage to achieve scale advantage through the following: strong branding; broad market coverage through additional branches, business centers and account officers; and the effective use of technology as business enabler.

- To continue to prudently manage the Bank's balance sheet through the following: conservative provisioning; the reduction in non-performing assets (ROPA sales); and sound capital management.

Competitive Strengths

The Bank believes it has the following competitive strengths compared to its peers:

- Leading brand name and banking franchise in the Philippines;
- Diversified business model providing full-service operations;
- Customer-centric culture complemented by strategic distribution platform;
- Scalable infrastructure platform for sustained growth;
- Strong and experienced management team; and
- Synergies with its controlling shareholder group.

Recent Developments

On November 14, 2013, the Bank disclosed that it entered into a definitive agreement to acquire Citibank Savings, Inc. The acquisition is still subject to the necessary closing conditions and regulatory approvals.

Selected Financial Information

The following table sets forth selected consolidated financial information of the Bank as at and for the periods indicated:

	For the years ended 31 December		
	2011	**2012**	**2013**
(in ₱ millions)			
Resources	1,097,349	1,244,408	
Loans and other receivables	673,927	760,500	
Deposit liabilities	858,569	931,641	
Equity	96,962	157,252	
Net income	10,588	14,342	

The China Banking Corporation

China Bank was incorporated on 20 July 1920 and commenced business on 16 August of the same year as the first privately owned local commercial bank in the Philippines. It resumed operations after World War II on 23 July 1945 and played a key role in the post-war reconstruction and economic recovery by providing financial services to businesses and entrepreneurs. China Bank was listed on the local stock exchange in 1947 and acquired its universal banking license in 1991. China Bank started by catering mainly to the Chinese-Filipino commercial sector, but has since expanded its market scope to include retail and consumer segments. Its core banking franchise stems mainly from its 93-year history in the Philippines, a factor that has enabled it to become deeply entrenched within the socioeconomic fabric of the Chinese-Filipino community. China Bank's market comprises the corporate, commercial and consumer markets. It provides a wide range of domestic and international banking services, and is one of the largest commercial banks in the country in terms of assets and capital.

China Bank offers a wide range of financial products and services through its network of 368 branches (including 73 branches of China Bank Savings) as of December 31, 2013. Complementing this branch network are convenient and secure electronic banking channels for day and night banking service – China Bank TellerCard ATM, China Bank Online (mobile and internet banking), and China Bank TellerPhone (phone banking).

China Bank won the Bell Awards for Corporate Governance for two consecutive years in 2012 and 2013. The Bell Awards was established by the PSE to recognize publicly-listed companies and trading participants for adhering to high standards of corporate governance. For the second year in a row, China Bank is the only bank among the top five awardees in the publicly-listed company category.

The Monetary Board of the BSP approved on November 21, 2013, the merger between China Bank Savings, Inc. ("CBS") and Pampanga-based rural lender Unity Bank, with CBS as the surviving bank. Exactly a year ago, BSP approved China Bank's acquisition of 99.95% of Unity Bank's outstanding subscribed capital stock.

2013 also paved the way for the signing of a Memorandum of Agreement ("MOA") for Planters Development Bank ("Plantersbank") and China Bank which calls for the purchase by China Bank of more than two-thirds of Plantersbank's shares, subject to approval of the bank's shareholders and regulatory bodies. The Plantersbank deal bolsters China Bank's current strategy in two areas – growing its middle market/SME portfolio and its network expansion program. China Bank is in the midst of the most rapid expansion in its history.

In addition, Fitch Ratings affirmed its national rating of AA- which is one notch below the top bank rating in the country. Capital Intelligence rating agency also affirmed its credit rating on China Bank (Financial Strength BBB-) and recently upgraded its Foreign Currency Long-Term rating to BBB- from BB+ following the upgrade in the Philippines' sovereign rating.

For 2014, China Bank will continue to build up its core businesses - corporate, consumer, middle market and SMEs. China Bank aims to tap the synergy with its shareholder, the Group, and affiliates such as The Manufacturers Life Insurance Co. (Phils.) Inc. (Manulife) as well their suppliers and retailers as a means of expanding its share of the consumer and commercial sectors. China Bank will build a competitive Treasury organization by diversifying its investment portfolio to include triple A corporate issues and increase the velocity of securities trading. The growth in existing fee-based revenues will be augmented by diversifying the sources of its revenue streams and client base. China Bank's credit card business will be launched during the third quarter of 2014. This will not only broaden revenue sources for China Bank but serve as a strategic tool for better customer engagement. Credit cards are expected to build greater loyalty among customers and accelerate the customer acquisition effort through China Bank's subsidiaries (CBS, Manulife, among others) and the Group.

The merger between Unity Bank and CBS and the recent acquisition of Plantersbank which had 78 branches, enabled China Bank to meet its target of 400 branches earlier than 2014. The China Bank Group, composed of China Bank, CBS, Unity Bank and Plantersbank, ended 2013 with 448 branches (295 branches of China Bank, 73 branches of CBS and 80 branches of Plantersbank). This rapid branch expansion will be the impetus to acquire new customers, increase client relationships and strengthen the distribution capacity of the branches to cross sell various products within a total relationship framework. The branch network will be the main platform for delivering financial products and services to the commercial and consumer segments. Electronic channels such as ATMs, kiosks, online and mobile banking will be upgraded for more efficient distribution of banking services to its retail and consumer clients.

Building a stronger and more responsive organization is a prerequisite for achieving China Bank's corporate goals. To strengthen China Bank's organizational capability, it will implement tighter accountability and performance monitoring, centralization of support and achieve industry best Turnaround Time ("TAT") in key customer processes. The upgrading of the core banking system is the centerpiece of China Bank's 3-year technology plans. China Bank will focus on the integration of various products and channel systems to provide customers with an enhanced service level on 24x7 basis, multi-channel banking and straight-through processing via technology-driven channels. It will also continue to upgrade its technology platforms – Core Banking system, ATM Switch, Credit Card / Debit Card system, Treasury, ALM systems, Data Warehouse, CRM systems – to be able to serve its customers with satisfaction while delivering superior returns to its stakeholders.

Insurance, Environment, Health and Safety

The Group's insurance arrangements are effected through BDO Insurance Brokers, Inc. (as broker). The Issuer believes that each of its subsidiaries is adequately insured, both in terms of the insured risks and the amount which is covered. The Issuer's commercial all risks insurance policy is underwritten by Prudential Guarantee Assurance Company and Generali Pilipinas Insurance Company. These insurance companies are supported by a panel of reinsurers whose minimum rating from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, is "A".

The Issuer's policy covers any potential loss of property. Loss of revenue under the loss of rent coverage resulting from fire, water damage and acts of God including earthquake, typhoon and flood is provided for SM Prime as a mall operator. Retail Affiliates operating inside the Malls do not have their own loss of revenue/business interruption insurance cover.

In addition, the comprehensive general liability insurance coverage extends to third-party liability, including loss of life and its corresponding litigation expenses.

The Issuer is, and, so far as it is aware, each of its principal subsidiaries is, in material compliance with all applicable environmental, health and safety regulations.

Legal Proceedings

The Issuer and the Group may be subject to various legal proceedings and claims that arise in the ordinary course of business. Save as set out below, as of the date of this Offering Circular the Issuer and the Group are not engaged in or subject to any litigation or arbitration proceedings nor, to the knowledge of the Directors, is any litigation or claim threatened against the Issuer or the Group which is material in the context of the offering and issue of the Bonds or which, if determined adversely against the Issuer or the Group, would have a material adverse effect on their results of operations or financial position.

Taal Vista Lodge Case

In 1988, the Issuer acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines ("DBP") through a negotiated sale and purchased the Taal Vista Lodge (the "Lodge") from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from the DBP.

Previously, in 1984, certain non-controlling stockholders of Resort Hotel Corp. ("RHC"), the previous owner of the former Baguio Pines Hotel properties and the Lodge filed with the Regional Trial Court ("RTC") of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of the mortgages on these properties. The Issuer was impleaded as a party defendant in 1995. The RTC of Makati voided the foreclosure by the DBP on the mortgaged properties and declared the Issuer a buyer in bad faith.

DBP and the Issuer have appealed the RTC's decision to the Court of Appeals. On 25 May 2007, the Court of Appeals issued a decision completely reversing and setting aside the 13 February 2004 decision of the RTC of Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration ("MR") with the Court of Appeals and, on 9 November 2007, the Court of Appeals issued a resolution denying the appellees' MR. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC of Makati. On 23 December 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on 24 October 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated 21 June 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court, and on July 7, 2011, the Supreme Court Second Division issued an Entry of Judgment in the case certifying that the said Decision on December 23, 2009 become final and executory on July 7, 2011 and recorded in the Book of Entries of Judgment.

Investments and Property

The Issuer's current assets, consisting of cash and cash equivalents, time deposits and short-term investments, investments held for trading and sale, receivables, merchandise inventories, and other current assets, amounted to [●] and [●] as at 31 December 2012 and 2013, respectively.

As at 31 December 2012 and 2013, the Issuer's investments in shares of stock of associates amounted to [●] and [●], respectively. These investments pertain to investments in shares of associates such as BDO, China Bank, HPI, Belle Corporation and Atlas Consolidated Mining and Development Corporation (Atlas).

The Issuer's investment properties amounted to [●] and [●] as at 31 December 2012 and 2013, respectively. These investments consist mainly of land, shopping malls and improvements.

There are statutory encumbrances on titles of certain of the Issuer's Tagaytay City land parcels. Specifically, transfer certificates of title ("TCTs") T-34460 and T-34454 bear annotations required for subdivisions for rights of way, while TCTs T-17628, T-17629 and T-17630 indicate that they were derived from reconstituted titles and therefore are subject to any prior right appearing on the original title. In addition, the titles of certain of that Issuer's Baguio City properties, namely the lands covered by TCTs T-45630 and T-45631, contain a notice in respect of the pending Taal Vista Lodge Case. See "— Legal Proceedings —Taal Vista Lodge Case" above. Except for the foregoing, no encumbrance is annotated on the titles of the Issuer's real estate.

The carrying amount of the Issuer's consolidated property and equipment was [●] and [●] as at 31 December 2012 and 2013, respectively. These consist of store and office land, buildings and improvements, furniture and fixtures, software, data processing and wide area network equipment, and real property. The Issuer's consolidated non-current time deposits amounted to [●] and [●] as at 31 December 2012 and 2013, respectively. The Issuer leases from SM Prime the land on which its offices in SM Mall of Asia Complex are located. The lease covers four parcels of land with a total area of 106,850 square metres. The 60-hectare land in SM Mall of Asia Complex had a net book value of [●] and [●] as at 31 December 2012 and 2013, respectively.

Intellectual Property

The Issuer owns the trademarks "SM", "SM Shoemart" and "Shoemart", which are all registered with the Philippine Intellectual Property Office ("IPO") for use in connection with goods and services.

The Issuer has granted the use of trademarks to certain affiliates such as Premier Southern Corporation, Consolidated Prime Dev. Corporation and First Asia Realty Development Corporation pursuant to the Memorandum of Agreements executed with them. These agreements, which are due to expire in 2020, do not provide for payment of monetary consideration to the Issuer for the use of the trademarks.

Capital Expenditure

The Group has made, and expects to continue to make, substantial capital expenditures in connection with the construction of new Malls, opening of new stores, development of SM Mall of Asia Complex, Hamilo Coast and its residential developments. The following table sets forth the Group's total capital expenditure for the periods indicated:

	As at 31 December		
(in ₱ millions)	**2011**	**2012**	**2013**
Capital Expenditure	39,975		

For the years ended 31 December 2011, 2012 and 2013, out of the ₱39,975 million, [●] and [●] respectively, that the Issuer incurred for capital expenditure on a consolidated basis, ₱16,642 million, [●] and [●] respectively, was invested in the construction of shopping malls.

The Retail Subsidiaries incurred capital expenditure of approximately [●] in 2013 related to opening new stores for department stores, supermarkets, savemore and hypermarkets.

SM Prime incurred capital expenditure (excluding China operations) of approximately [●] in 2013 related to construction of shopping malls and land banking activities, project development costs of condominium buildings and resort facilities, and hotel development costs.

Capital expenditures of BDO for 2013 are expected to be minimal as the major investments in information technology, office renovation and branch expansion have already been completed in previous years.

China Bank has allocated [●] in capital expenditures for 2013, with about [●] for branch expansion (both China Bank and China Bank Savings). Apart from the substantial capital expenditures allotted for branch expansion, about half of the capital expenditure budget for 2013 will be invested in key infrastructure projects such as the acquisition of a new core banking system, ATM/card switch management system, a new phone banking/call centre software, servers upgrade and enhancements to cash management platform to include supply chain functionalities.

In aggregate, the Group expected to incur capital expenditure of [●] in 2013 to finance projects related to property development, banking, retail, tourism and leisure and general investments, subject to the overall performance of the Philippine economy. Approximately [●]% of these capital expenditures shall be financed from internally generated funds, while approximately [●]% shall be financed from borrowings.

Government Regulations and Authorizations

The Issuer possesses, and each of its principal subsidiaries possesses, all Government authorizations and approvals necessary to conduct their respective businesses and the Issuer is, and each of its principal subsidiaries is, in material compliance with such authorizations and approvals.

Employees

As at 31 December 2013, the Issuer had [●] regular employees and the Group (excluding the Issuer) had approximately [●] regular employees. The employees are classified as follows:

	No. of Employees
Rank and file	[●]
Junior/ mid-level managers	[●]
Senior executive officers	[●]

The Issuer and certain of its subsidiaries have a funded non-contributory pension plan covering all full-time employees considered as having regular employment status. As at 31 December 2013, defined benefit liability amounted to [●]. In addition, healthcare benefits are also provided to the Issuer's employees and those of its subsidiaries.

As at 31 December 2013, the Retail Subsidiaries had more than approximately [●] regular employees, of whom approximately [●], [●], [●], and [●] were directly employed at the SM Department Stores, SaveMore stores, SM Supermarkets, and SM Hypermarkets, respectively. The SM Department Stores hire seasonal employees when there is an increase in business, which is generally during the Christmas season and in May, prior to school opening in June.

The Retail Subsidiaries have a retirement plan covering all regular employees, which was launched in 2000. In addition, healthcare benefits are also provided to regular employees of the Retail Subsidiaries.

Approximately [●] employees at five SM Department Stores are members of Bargaining Units. The latest bargaining agreement for such employees was signed in [●] for a term of [●] years. The Issuer considers its relations with the Retail Subsidiaries employees to be generally good, and there have been no instances of major strikes, lockouts or other disruptive labour disputes within the last five years. The Issuer is not aware of any impending strikes, lockouts or other disruptive labour disputes.

The average age of SMIC's officers and employees is [●] years and the average tenure of SMIC's employees is five years. The mandatory retirement age for the Issuer's employees is 60.

Related Party Transactions

The Issuer is the ultimate holding company of the Group, and, as at 31 December 2013, it was [●]% owned by Mr. Henry Sy, Sr., the founder of the Group, and other members of the Sy Family. The Issuer and certain of its subsidiaries, associates and affiliates currently have contractual arrangements with each other. The principal ongoing related party transactions within the Group as at 31 December 2013 are summarized below.

Related party transactions

SMIC	Receives management fees from SM Mart, SM Department Stores, SVI and SSMI and certain Retail Affiliates for the provision of management services including tax, legal and treasury services
	Leases from SM Prime the land for its corporate headquarters

	at SM Mall of Asia Complex in the Manila Bay area
	SMIC and a number of its subsidiaries maintain banking facilities with BDO, including deposits and loans
	Receives rental income from subsidiaries with respect to rental of offices at the head office
	Pays management fees, based on a percentage of rent revenue, to one of the Management Companies owned by members of the Sy Family for management of the head office
SM Prime	Receives rental income, based on a percentage of net sales, pursuant to the leases of [●] SM Department Stores in the Malls
	Receives rental income, based on a percentage of net sales, from SM Supermarkets, SM Hypermarkets and certain other Retail Affiliates
	Pays management fees, based on a percentage of operating income, to Management Companies for management of each of the major revenue streams generated by the Malls
SM Retail	Receives a percentage of net sales from SM Mart and SM Department Stores for operational support and services, including for credit cards. Such operational support includes merchandising, marketing and advertising, information technology, controllership, operations and human resource services
SM Mart and Department Store Companies	Pays SMIC management fees for, among other matters, tax and legal services as well as the right to use certain intellectual property rights
	[●] of the SM Department Stores pay SM Prime a percentage of net sales for the department store space rented in the Malls
	Pay SM Retail a percentage of net sales for operational support and services
BDO	Receives fee income and interest for the provision of banking services including loans to Group companies, affiliates of the Group and their suppliers and pays interest on deposits. DOSRI loans amounted to ₱42,484 million, [●] and [●] as at

	31 December 2011, 2012 and 2013, respectively
	Pays dividends on preferred shares to SM Prime
Retail Affiliates	Pay SMIC a percentage of net sales as management fees
	Pay SM Prime a variable percentage of net sales as rent
SM Supermarkets/Hypermarkets	Pay SMIC a percentage of net sales as management fees
	Pay SM Prime a variable percentage of net sales as rent

Specific details of these transactions are set forth below:

- SMIC and SM Prime have existing lease agreements for office and commercial space with related companies. Total rent revenues amounted to ₱2,985.5 million, [●] and [●] for the years ended 31 December 2011, 2012 and 2013, respectively, and related rent receivable amounted to P1,267.7 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively.
- SM Prime and SMIC pay management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for the management of the office and mall premises. Total management fees for the years ended 31 December 2011, 2012 and 2013 amounted to P779.8 million, [●] and [●] respectively. Management fees payable amounted to ₱74.8 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively.
- SMIC, SM Land and SM Retail receive management fees from related companies for providing management and consultancy services. As consideration for the services provided, the Issuer receives annual management fees based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to P564.2 million, [●] and [●] for the years ended 31 December 2011, 2012 and 2013, respectively. Accrued management fees receivable amounted to P95.9 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively.
- The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank, and earns interest based on prevailing market interest rates. Cash and cash equivalents maintained with BDO and China Bank amounted to [●] million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively. Time deposits and short-term investments of ₱38,293.4 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively, were deposited with BDO. Related accrued interest receivable amounted to ₱841.4 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively.
- The Group, in the normal course of business, had outstanding advances amounting to ₱2,684.6 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively, due from related companies. Amounts due to related companies amounted to ₱2,734.4 million, [●] and [●] as at 31 December 2011, 2012 and 2013, respectively.

The Issuer considers each of its subsidiaries and associates to be responsible for its own profits or losses and that each such corporation is independent of the Sy Family, and accordingly requires that any contractual arrangements referred to above should be entered into on an arm's length basis. In particular, all loans by BDO to related parties are within the statutory limits required by the BSP and are on an arm's length basis. See "Note [●] — Related Party Transactions" to the consolidated financial statements as at and for the year ended 31 December 2012 and 2013, respectively, included elsewhere in this Prospectus.

Material Contracts

As of the date of this Prospectus, the Company is not a party to any material contracts, except for contracts entered into in the ordinary course of business.

RECENT DEVELOPMENTS AND PROSPECTS

SMIC

On May 31, 2013, the Group embarked on a transaction to consolidate all of its real estate interests under SM Prime, in line with the Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the Group's various real estate business units, and further enhance the value of the Group's real estate businesses. The consolidation involved SMDC and HPI, various unlisted Group real estate companies including SM Land and SM Hotels and Conventions Corporation and various real estate properties owned by SMIC.

The Group initiated the consolidation through the simultaneous tender offers made by SM Land to acquire 100% of the outstanding issued and capital stock of SMDC and HPI it did not yet own by exchanging SM Prime common shares owned by SM Land for SMDC and HPI common shares of the tendering SMDC and HPI Shareholders (the "Tender Offers"). This was followed by the following key transactions: (i) the merger of SM Land with SM Prime with the latter as the surviving entity (the "Merger"), (ii) the issuance of new SM Prime common shares to SMIC, Mountain Bliss Resort & Development Corp. ("Mountain Bliss"), and the Sy family, principal shareholders of SMIC and Group real estate companies, in exchange for shares in certain real estate companies of the Group (the "Share for Share Swap"), and (iii) the issuance of new SM Prime common shares to SMIC in exchange for key real estate properties ("Property for Share Swap") owned by SMIC.

The Tender Offers were completed on 12 August 2013, and the shares of SMDC and HPI were de-listed from the PSE on 05 November 2013. The Merger was approved by the SEC on 10 October 2013. On the same date, the Philippine SEC also approved SM Prime's acquisition of SMIC's and the Sy Family's unlisted real estate companies, including SM Hotels and Conventions Corp., SM Arena Complex Corporation, Costa del Hamilo, Inc., Prime Metro Estate, Inc. and Tagaytay Resort and Development Corporation through the issuance of new SM Prime shares, as well as SM Prime's acquisition of certain real property assets of SMIC through the issuance of new SM Prime shares to SMIC (the "Property for Share Swap")

SM Prime

[●]

BDO

On November 14, 2013, the Bank disclosed that it entered into a definitive agreement to acquire Citibank Savings, Inc. The acquisition is still subject to the necessary closing conditions and regulatory approvals.

China Bank

On November 21, 2013, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the merger between China Bank Savings, Inc. (CBS) and Pampanga-based rural lender Unity Bank, with CBS as the surviving bank. Exactly a year ago, BSP approved China Bank's acquisition of 99.95% of Unity Bank's outstanding subscribed capital stock.

In 2013, a Memorandum of Agreement was also signed for the purchase by China Bank of more than two-thirds of the issued and outstanding shares of Planters Development Bank (Plantersbank), subject to approval of the China Bank's shareholders and the regulatory bodies. The acquisition of Plantersbank bolsters China Bank's current strategy of growing its middle market/SME portfolio and its network expansion program.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, and (ii) the audited consolidated financial statements for the years ended of 31 December 2011, 2012 and 2013 and the notes thereto.

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On 29 April 2009, the Company's shareholders approved the amendment of SMIC's Articles of Incorporation, extending the Company's corporate life for another 50 years from 15 January 2010. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines. Through its subsidiaries, associates and other investments, the Issuer operates a diversified range of businesses located in the Philippines.

The Group's business activities and interests are divided into three principal sectors:

- retail merchandising through its department store, supermarket, SaveMore, hypermarket and wholesale operations (SM Retail);
- real estate through its shopping mall, residential, tourism, hotel and convention center developments, where it is one of the largest real estate companies in South East Asia (SM Prime);;
- financial services, through its associate banks that have universal banking licenses in the Philippines (BDO and China Bank);

Basis of Preparation

<u>Basis of Preparation</u>

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

<u>Statement of Compliance</u>

The consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations from IFRIC starting January 1, 2011, except when otherwise stated:

Amendments to Standards and Interpretations

- PAS 24 (Amendment), *Related Party Disclosures,* became effective for annual periods beginning on or after January 1, 2011
- PAS 32 (Amendment), *Financial Instruments: Presentation*, became effective for annual periods beginning February 1, 2010
- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, became effective for annual periods beginning January 1, 2011.
- Philippine Interpretation IFIRC 19, *Extinguishing Financial Liabilities with Equity Instruments*, became effective for annual periods beginning July 1, 2010.

The above standards have no impact on the Group's consolidated financial statements.

Improvements to PFRSs (Issued 2010)

An omnibus of amendments to standards deal primarily with a view to removing inconsistencies and clarifying wordings. The adoption of the following amendments resulted in changes to accounting policies but did not have material impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*. The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2010. The Group, however, adopted these as at January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments - Disclosures*, effective January 1, 2011, intended to simplify the disclosures provided by reducing the volume of disclosures about collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment is applicable for annual periods beginning on or after July 1, 2010.

- PAS 1, *Presentation of Financial Statements*, effective January 1, 2011, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. This has no significant impact on the Group's consolidated financial statements.

Other amendments resulting from improvements to PFRSs and interpretations to the following standard did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3*, Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)), applicable for annual periods beginning on or after July 1, 2010

- PFRS 3*, Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards), applicable for annual periods beginning on or after July 1, 2010

- PAS 27, *Consolidated and Separate Financial Statements,* applicable for annual periods beginning on or after July 1, 2010

- PAS 34, *Interim Financial Statements,* effective January 1, 2011

- Philippine Interpretation IFRIC 13*, Customer Loyalty Programmes (determining the fair value of award credits)*, effective for annual periods beginning on or after January 1, 2011

Financial Performance

Year ended 31 December 2013 vs. year ended 31 December 2012

[●]

Year ended 31 December 2012 vs. year ended 31 December 2011

Consolidated revenues grew by 12.0% to ₱223.8 billion, as against last year's ₱199.9 billion. Income from operations increased by 26.6% to ₱46.8 billion from last year's ₱37.0 billion. Operating income margin and Net profit margin is at 20.9% and 11.0%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2012 increased by 16.3% to ₱24.7 billion compared to ₱21.2 billion of the same period last year.

Retail Sales accounts for 71.0% or ₱158.9 billion of the total revenues for the year. Consolidated Retail sales grew by 7.2% from ₱148.2 billion to ₱158.9 billion for the year ended December 31, 2012 due mainly to the opening of the following new stores in 2012:

	SM Department Stores	SM Supermarkets/ SaveMore Stores	SM Hypermarkets
1	Olongapo	Consolacion Cebu	Alabang, Zapote Road Las Pinas*
2	Consolacion Cebu	San Fernando Pampanga	East Service Road Muntinlupa*
3	San Fernando Pampanga	General Santos	Monumento Caloocan City
4	General Santos	Lanang Davao	Cainta Rizal*
5	Lanang Davao	SaveMore LGZ Silver Screen	Heroes' Hall Laoag Ilocos Norte
6	-	SaveMore Basak	Antipolo City
7	-	SaveMore Nova Plaza	Cadiz, Negros Occidental
8	-	SaveMore Bangkal	-
9	-	SaveMore Sorsogon	-
10	-	SaveMore Baclaran	-
11	-	SaveMore Malinta	-
12	-	SaveMore San Jose	-

13	-	SaveMore Parian	-
14	-	SaveMore Camarin	-
15	-	SaveMore Avenida	-
16	-	SaveMore LB Centro	-
17	-	SaveMore Sta. Rosa	-
18	-	SaveMore Maribago	-
19	-	SaveMore MD Fuente	-
20	-	SaveMore Talisay	-
21	-	SaveMore Kawit	-
22	-	SaveMore Santiago	-

These were formerly Makro stores which were converted into Hypermarket stores.

Excluding the full year sales of Makro in 2011, the retail sales growth would be 9.3% from ₱145.4 billion in 2011 to ₱158.9 billion in 2012. Of the 2012 total retail sales, the non-food group, which is composed of SM Department stores, contributed 43.8% or ₱69.6 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores and SM Hypermarkets contributed 56.2% or ₱89.3 billion.

As of December 31, 2012, SM Investments' retail subsidiaries have 202 stores. These consist of 46 department stores, 37 supermarkets, 82 SaveMore stores and 37 hypermarkets.

Real estate sales for the year ended December 31, 2012, derived mainly from condominium projects of SMDC, grew by 31.1% to ₱23.4 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2012 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 19 residential projects as of December 31, 2012. In 2012, SMDC introduced in the real estate market Breeze Residences in Pasay City and Grace Residences in Taguig City. For the whole of 2012, SMDC pre-sold 12,614 residential condominium units worth approximately P31.7 billion. Compared to the same period in 2011, the number of units pre-sold increased by 8%.

The other ongoing projects of SMDC are the following: Grass Residences beside SM City North Edsa; Field Residences in Sucat, Paranaque; Princeton Residences along Aurora Boulevard in Quezon City; Jazz Residences near Jupiter Road in Makati City; Sun Residences right beside the Mabuhay (formerly Welcome) Rotunda near Quezon Avenue; Light Residences near Pioneer Street in Mandaluyong; Wind Residences along the Emilio Aguinaldo Highway in Tagaytay City; Blue Residences, which is located at Loyola Heights in Quezon City; M Place South Triangle in Panay Avenue, Quezon City; Mezza II Residences in Sta. Mesa Quezon City; Rose Residences in Pasig City; Green Residences along Taft Avenue, Manila; Shell Residences near Mall of Asia Complex in Pasay City; Breeze Residences in Roxas Boulevard, Pasay City; and Grace Residences in Taguig City. Currently, SMDC has five fully completed projects namely Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City; Chateau Elysee, a midrise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; Sea Residences near the Mall of Asia Complex in Pasay City and Lindenwood Residences, a residential subdivision in Muntinlupa City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

Rent revenue for the year ended December 31, 2012, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 18.0% to ₱24.2 billion in 2012 from ₱20.5 billion in 2011. SM Prime is the country's leading shopping mall developer and operator which owns 46 malls in the Philippines and five malls in China as of December 31, 2012. The increase in rental revenues is largely due to rentals from new SM Supermalls which opened in 2011 and 2012, namely SM City Masinag, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos and SM Lanang Premier, with a total gross floor area of 527,000 square meters. Excluding the new malls and expansions, same store rental growth is at 8.0%.

The four malls in China contributed ₱2.5 billion in 2012 and ₱2.0 billion in 2011, or 10.4% and 9.9%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 24.4% in 2012 compared to the same period in 2011 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. SM Chongqing, the fifth mall in China, opened in December 2012 with a gross floor area of 149,000 square meters. Average occupancy rate for the four malls is now at 92%.

For the year 2012, cinema ticket sales and amusement revenues increased by 16.6% to ₱4.8 billion in 2012 from ₱4.1 billion in 2011 largely due to more blockbuster movies both local and international, conversion of all screens to digital and roll-out of cinema turnstile system which made the cinema viewing experience more convenient for customers that altogether led to an increase in foot traffic. Amusement revenues is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 40.9% to ₱9.0 billion in 2012 from ₱6.4 billion in 2011, primarily due to the increase in the net income of BDO which is attributed to the bank's robust expansion in its lending, deposit-taking, and fee-based businesses. Net interest income was up 7.1% even as volume growth was offset by the impact of regulatory changes and excess system liquidity. Total non-interest income rose 18% contributed substantially by trading gains from treasury activities. BDO was able to capitalize on market opportunities and realize exceptional gains from its investment portfolio. With the Philippine economy expected to sustain its growth momentum, BDO looks forward to tapping the promising growth opportunities in customer segments, capitalizing on its established business franchise and wide distribution network.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading decreased by 95.4% to ₱0.002 billion in 2012 from ₱0.04 billion in 2011 primarily due to the gain on sale of available-for-sale investments of certain subsidiaries in 2011.

Dividend income increased by ₱0.2 billion or 70.3% in 2012 to ₱0.6 billion from ₱0.4 billion in 2011 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by ₱0.2B or 26.3% from ₱0.9 billion in 2011 to ₱1.1 billion in 2012 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, increased by ₱0.2 billion or 16.0% from ₱1.5 billion in 2011 to ₱1.8 billion in 2012.

Total cost and expenses went up by 8.7% to ₱177.0 billion for the year ended December 31, 2012 compared to 2011. Retail cost of sales increased by 5.1% from ₱112.2 billion to ₱117.9 billion while real estate cost of sales and others increased by 37.3% from ₱10.3 billion to ₱14.1 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 11.3% from ₱40.4 billion in 2011 to ₱45.0 billion in 2012. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to ₱39.5 billion in 2012 which accounts for 88% of total selling, general and administrative expenses for the year ended December 31, 2012. The increase is primarily associated with new malls, department stores, supermarkets, savemore, hypermarkets and residential projects.

Other charges of ₱5.9 billion in 2012 increased by 346.5% or ₱4.6 billion from last year's other charges of ₱1.3 billion. Gain on disposal of investments and properties decreased by 50.4% to ₱1.3 billion in 2012 from ₱2.6 billion in 2011 due mainly to the gain on Belle-PLAI share swap in 2011 of ₱1.5 billion (net of minority interest). Gain (loss) on fair value changes on derivatives decreased by 483.3% to loss of ₱1.4 billion in 2012 from gain of ₱0.4 billion in 2011 resulting mainly from the fair value changes of the embedded derivatives related to the US$250.0 million convertible bonds of SMIC in 2012 (refer to Note 19 of the consolidated financial statements). Interest expense increased by 22.4% or ₱2.0 billion to ₱10.8 billion in 2012 from ₱8.8 billion in 2011 due mainly to new loans availed of in 2012 (refer to Note 19 of the consolidated financial statements). These were offset by the increase in interest income by 3.3% to ₱4.4 billion in 2012 from ₱4.3 billion in 2011 and increase in foreign exchange gains by 132.7% from ₱0.2 billion in 2011 to ₱0.6 billion in 2012 due mainly to the decrease in foreign exchange rate from ₱43.93:US$1.00 in 2011 to ₱41.05:US$1.00 in 2012.

Provision for income tax increased by 19.1% to ₱6.5 billion for the year 2012 from ₱5.5 billion in 2011 due mainly to the increase in taxable income.

Minority interest increased by 8.4% to ₱9.7 billion in 2012 from ₱9.0 billion in 2011 due to the increase in net income of certain subsidiaries.

Year ended 31 December 2011 vs. year ended 31 December 2010

Consolidated revenues grew by 13.0% to ₱200.3 billion, as against last year's ₱177.2 billion. Income from operations increased by 16.2% to ₱37.4 billion from last year's ₱32.2 billion. Operating income margin and net profit margin is at 18.7% and 10.6%, respectively. Net income attributable to equity holders of SMIC for the year ended December 31, 2011 increased by 15.1% to ₱21.2 billion compared to ₱18.4 billion of the same period last year.

Retail sales accounts for 74.0% or ₱148.2 billion of the total revenues for the year. Consolidated retail sales grew by 9.3% from ₱135.6 billion to ₱148.2 billion for the year ended December 31, 2011 due mainly to the opening of the following new stores in 2011:

	SM Department Stores	**SM Supermarkets/ SaveMore Stores**	**SM Hypermarkets**
1	SM City Masinag	SM City Masinag	Mandaue, Cebu*
2		Megamall A	JMall, Mandaue, Cebu
3		Olongapo	Imus*
4		SaveMore Muntinlupa	Sucat-Lopez
5		SaveMore Jackman	Marketmall
6		SaveMore Capistrano	
7		SaveMore Bayambang	
8		SaveMore Malhacan	
9		SaveMore Kauswagan*	
10		SaveMore Araneta	
11		SaveMore Sta. Ana	
12		SaveMore Apalit	
13		SaveMore Sta. Maria	
14		SaveMore Binan	
15		SaveMore Tuguegarao	
16		SaveMore Halang	
17		SaveMore Shoe Ave.	
18		SaveMore Balibago	
19		SaveMore Canduman	

20		SaveMore Maguikay	
21		SaveMore Pedro Gil	
22		SaveMore Iba, Zambales	
23		SaveMore Kanlaon	
24		SaveMore Ilagan	
25		SaveMore A. Avenue	
26		SaveMore Laoag	
27		SaveMore Salitran	
28		SaveMore Blumentritt	

** Formerly Makro stores which were converted to Hypermarket stores*

Excluding the full year sales of Makro, the retail sales growth would be 12.4% from ₱129.4 billion in 2010 to ₱145.4 billion in 2011. Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.9% or ₱63.5 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.1% or ₱84.6 billion.

As at December 31, 2011, SMIC's retail subsidiaries had 168 stores. These consist of 41 department stores, 33 supermarkets, 64 SaveMore stores and 30 hypermarkets.

Real estate sales for the year ended December 31, 2011, derived mainly from condominium projects of SMDC, surged by 64.0% to ₱17.9 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2011 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 17 residential projects as at December 31, 2011. In 2011, SMDC launched Mezza II Residences in Quezon City, Green Residences in Manila, Shell Residences in Pasay City and M Place Ortigas in Pasig City. For the whole of 2011, SMDC pre-sold 11,726 residential condominium units worth approximately ₱26.3 billion. Compared to the same period in 2010, the number of units pre-sold increased by 14% and exceeded SMDC's sales target of ₱23.6 billion by 11%.

The other ongoing projects of SMDC are the following: Grass Residences beside SM City North Edsa; Sea Residences near the Mall of Asia Complex in Pasay City; Field Residences in Sucat, Paranaque; Princeton Residences along Aurora Boulevard in Quezon City; Jazz Residences near Jupiter Road in Makati City; Sun Residences right beside the Mabuhay (formerly Welcome) Rotunda near Quezon Avenue; Light Residences near Pioneer Street in Mandaluyong; Wind Residences along the Emilio Aguinaldo Highway in Tagaytay City; Blue Residences, which is located at Loyola Heights in Quezon City and M Place South Triangle in Panay Avenue, Quezon City. Currently, SMDC has four fully completed projects namely Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City; Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; and Lindenwood Residences, a residential subdivision in Muntinlupa City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

Rent revenue for the year ended December 31, 2011, derived mainly from mall operations of SM Prime, increased by 14.3% to ₱20.5 billion in 2011 from ₱17.9 billion in 2010. SM Prime is the country's leading shopping mall developer and operator which owns 41 malls in the Philippines and four malls in China as at December 31, 2011. The increase in rental revenues is largely due to rentals from new SM Supermalls. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were opened. In 2011, SM Masinag was also opened. The new malls added 380,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 7.0%.

The four malls in China contributed ₱2.0 billion in 2011 and ₱1.4 billion in 2010, or 9.9% and 7.7%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 46.4% in 2011 compared to the same period in 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. Average occupancy rate for the four malls is now at 95%.

For the year 2011, cinema ticket sales and amusement revenues increased by 11.1% to ₱4.1 billion in 2011 from ₱3.7 billion in 2010 largely due to the success of local blockbuster movies shown in 2011 compared to 2010 and higher sponsorship revenues in 2011. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 17.9% to ₱6.4 billion in 2011 from ₱5.4 billion in 2010, primarily due to the increase in the net income of BDO which is attributed to the bank's recurring fee-based income from its service businesses which rose 18%. Amid a volatile external environment, BDO generated a 10% increase in trading and foreign exchange gains. Along with other miscellaneous income, BDO recorded a 17% growth in non-interest income. BDO continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service activities. Having completed its investment in capacity, BDO is now starting to benefit from scale with operating expenses increasing only moderately by 4% with ongoing initiatives to enhance operational efficiency.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives decreased by 55.7% to ₱0.4 billion in 2011 from ₱0.9 billion in 2010 primarily due to the gain on sale of various available-for-sale investments of certain subsidiaries in 2010.

Dividend income increased by ₱0.1 billion or 21.5% in 2011 to ₱0.4 billion from ₱0.3 billion in 2010 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by ₱0.1 billion or 9.1% from ₱0.8 billion in 2010 to ₱0.9 billion in 2011 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, slightly decreased by ₱ 0.06 billion or 3.8%.

Total cost and expenses went up by 12.3% to ₱162.9 billion for the year ended December 31, 2011 compared to 2010. Retail cost of sales increased by 8.4% from ₱103.5 billion to ₱112.2 billion while real estate cost of sales and others increased by 71.6% from ₱6.0 billion to ₱10.3 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 13.8% from ₱35.5 billion in 2010 to ₱40.4 billion in 2011. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to ₱34.2 billion in 2011 or a growth of 14.8% from ₱29.8 billion in 2010. The increase is primarily associated with new malls, department stores, supermarkets, savemore and hypermarkets and residential projects.

Other charges of ₱1.7 billion in 2011 decreased by 10.9% or ₱0.2 billion from last year's other charges of ₱1.9 billion. Gain on disposal of investments and properties increased by 61.3% to ₱2.6 billion from ₱1.6 billion mainly due to the gain on the share swap of Belle Corporation and Premium Leisure and Amusement Inc. in 2011 of ₱1.5 billion (net of non-controlling interest). Interest income increased by 15.0% to ₱4.3 billion in 2011 from ₱3.7 billion in 2010 mainly due to higher average balance of temporary investments and time deposits and higher interest rates during 2011. These were offset by the increase in interest expense by 15.5% or ₱1.2 billion to ₱8.8 billion in 2011 from ₱7.6 billion in 2010 mainly due to new loans availed of in 2011 (refer to Note 20 of the audited consolidated financial statements) and the decrease in foreign exchange gains by 40.4% from ₱0.4 billion in 2010 to ₱0.2 billion in 2011 mainly from restatement of loans availed during the year wherein foreign exchange rate of peso to dollar is lower as compared with year-end exchange rate.

Provision for income tax increased by 1.7% to ₱5.5 billion for the year 2011 from ₱5.4 billion in 2010 mainly due to the increase in taxable income.

Non-controlling interest increased to ₱9.0 billion in 2011 from ₱6.4 billion in 2010 due to the increase in net income of certain subsidiaries.

Financial Condition

2013 vs. 2012

[●]

2012 vs. 2011

Consolidated total assets as of December 31, 2012 amounted to ₱561.8 billion, higher by 25.1% from ₱449.1 billion in previous year. On the other hand, consolidated total liabilities grew by 32.4% to ₱300.2 billion in 2012 from ₱226.8 billion in previous year.

Total current assets increased by 44.1% to ₱145.9 billion as of December 31, 2012 from ₱101.3 billion as of last year. Cash and cash equivalents increased by 8.3% to ₱60.7 billion in 2012 from ₱56.1 billion in 2011 while Time deposits and short term investments increased by 3207.9% to ₱29.1 billion in 2012 from ₱0.9 billion in 2011 due mainly to proceeds from loan availments during the year and reclassification from noncurrent to current of time deposits which will mature in 2013. Receivables increased by 39.1% to ₱16.4 billion from ₱11.8 billion due primarily to increase in receivable from tenants and real estate buyers. Other current assets increased by 36.5% to ₱23.4 billion from ₱17.2 billion resulting mainly from condominium units for sale of the real estate group, prepaid taxes and other prepayments and nontrade receivables.

Total consolidated noncurrent assets amounted to ₱415.9 billion as of December 31, 2012, a growth of 19.6% from ₱347.8 billion as of December 31, 2011. Investments available for sale increased by 35.8% to ₱16.9 billion in 2012 from ₱12.4 billion in 2011 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 45.3% to ₱128.4 billion in 2012 from ₱88.4 billion in 2011 mainly due to additional investment in shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2012. The increase in investment properties, property and equipment and land and development by 14.2% or ₱18.7 billion, 13.9% or ₱2.1 billion and 31.2% or ₱7.2 billion, respectively, arose from new mall constructions, real estate developments and purchase of commercial lots in 2012. Other noncurrent assets increased by 15.3% to ₱27.8 billion from ₱24.1 billion mainly due to the non-current receivable from real estate buyers, deposits and advance rentals and non-current portion of advances for project development. These were partially offset by the decrease in deferred tax assets to P0.64 billion in 2012 from ₱0.69 billion in 2011 and decrease in time deposits by 21.3% to ₱29.4 billion in 2012 from ₱37.4 billion in 2011 due mainly from reclassification to current portion of maturing time deposits.

Total consolidated current liabilities increased by 31.7% to ₱105.1 billion as of December 31, 2012 mainly due to availment of bank loans which increased by 23.5% to ₱31.8 billion in 2012 from ₱25.7 billion in 2011 and increase in accounts payable and other current liabilities by 29.3%% to ₱57.9 billion in 2012 from ₱44.7 billion in 2011 mainly arising from trade transactions, payable arising from acquisition of land, and current derivative liability. See note 17 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 10.7% to ₱1.5 billion in 2012 from ₱1.3 billion in 2011 due mainly to higher taxable income in 2012. The 75.0% or ₱5.9 billion increase in current portion of long-term debt is due mainly to the reclassification from Long-term debt of loans which will mature in 2013. See note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. The 278.6% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total Noncurrent Liabilities increased by ₱48.1 billion to ₱195.1 billion in 2012 from ₱147.0 billion in 2011. Long-term debt – net of current portion increased by ₱46.1 billion or 35.9% to ₱174.5 billion in 2012 from ₱128.5 billion in 2011 due mainly from bond issuances of SMIC and corporate notes issued by SMDC and SMPHI. See note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. Noncurrent derivative liability remained at ₱0.2 billion in 2012 and 2011. Defined benefit liability decreased by ₱0.05 billion or 63.0% to ₱0.03 billion from ₱0.08 billion in 2011. Tenants' deposits and others increased by 14.6% to ₱15.7 billion in 2012 from ₱13.7 billion in 2011 due mainly to new malls and expansions and new condominium projects of the real estate group.

Total Stockholders' equity amounted to ₱261.6 billion as of December 31, 2012, while total Equity attributable to equity holders of the parent amounted to ₱188.1 billion. The 37.6% or ₱0.1 billion decrease in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Cost of common shares held by a subsidiary decreased by 52.2% to ₱0.1 billion from ₱0.3 billion due mainly to the disposal by subsidiaries of parent common shares during the year. Minority interest increased by 13.8% to ₱73.6 billion in 2012 from ₱64.6 billion in 2011 due mainly to increase in net assets of certain subsidiaries. See Note 20 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

2011 vs. 2010

Consolidated total assets as at December 31, 2011 amounted to ₱449.1 billion, higher by 10.2% from ₱407.4 billion in previous year. On the other hand, consolidated total liabilities grew by 8.2% to ₱226.8 billion in 2011 from ₱209.6 billion in previous year.

Total current assets decreased by 2.9% to ₱101.3 billion as at December 31, 2011 from ₱104.3 billion as at last year. Cash and cash equivalents decreased by 16.3% to ₱56.1 billion in 2011 from ₱67.0 billion in 2010 mainly due to payments for investment acquisitions and capital expenditures. This was partially offset by the increase in receivables by 19.7% to ₱11.8 billion from ₱9.8 billion primarily due to increase in receivable from tenants and real estate buyers. Merchandise inventories increased by 28.1% to ₱13.4 billion from ₱10.5 billion primarily due to new departments stores, supermarkets, savemore and hypermarkets. Other current assets increased by 21.6% to ₱17.2 billion from ₱14.1 billion resulting mainly from the advances to contractors of the real estate group from its current projects.

Total consolidated non-current assets amounted to ₱347.8 billion as at December 31, 2011, a growth of 14.8% from ₱303.1 billion as at December 31, 2010. Investments available for sale increased by 12.2% to ₱12.5 billion in 2011 from ₱11.1 billion in 2010 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 24.8% to ₱88.4 billion in 2011 from ₱70.9 billion in 2010 mainly due to additional investment in and purchase of shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2011. As disclosed in Note 13 to the audited consolidated financial statements, in April 2011, the Group increased its ownership interest in Belle Corporation (Belle), an associate, by 20.78% and 12.58% gross and effective ownership, respectively, via share swap wherein the outstanding shares of Premium Leisure and Amusement Inc. (PLAI, a subsidiary) were exchanged for certain number of common shares of Belle valued at P1.95 per share. The valuation of the PLAI shares was made by an independent appraiser and approved by the SEC on October 6, 2010. This is the same valuation used in 2011. Upon receipt of the approval from the Bureau of Internal Revenue on March 31, 2011 and issuance of stock certificates by Belle on April 14, 2011, the Group recorded the share swap in its 2011 financial statements. The increase in investment properties, property and equipment and land and development by 15.5% or ₱17.6 billion, 12.9% or ₱1.7 billion and 16.8% or

₱3.3 billion, respectively, arose from new mall constructions, real estate developments and purchase of commercial lots in 2011. As at December 31, 2011, the Group has no idle property and equipment and the carrying amount of fully depreciated property and equipment still in use amounted to ₱2,869.7 million. Deferred tax assets increased by 20.5% to ₱0.7 billion in 2011 from ₱0.6 billion in 2010 mainly due to tax effect of unrealized foreign exchange loss, unamortized past service cost and defined benefit liability and accrued leases. Other non-current assets increased by 14.4% to ₱24.1 billion from ₱21.0 billion mainly due to the non-current receivable from real estate buyers. As disclosed in Note 17 to the audited consolidated financial statements, Other Noncurrent Assets include Receivable from a related party and escrow fund amounting to ₱8.1 billion in 2011. The related party and SMIC have common stockholders. As disclosed in Note 17, the receivable from related party pertains to various cash advances in 2009 for payment of interest, purchase of shares and other operating requirements totaling to ₱6,000.0 million, which bears a fixed interest of 7.0%, payable semi-annually and will mature in 2013. Further, as disclosed in Note 22, "the Group did not make any provision for doubtful accounts relating to amounts owed by related parties" and that "there have been no guarantees provided or received for any related party receivables or payables." As disclosed in Note 17, Intangibles include Trademarks and brand names amounting to ₱6.1 billion. These trademarks and brand names pertain to that of the supermarket and hypermarket business of the Group which were acquired in 2006 and valued using the Relief-from-Royalty Method. The royalty rate was 3.5%, which was the prevailing royalty rate in 2006 in the retail assorted category where the two entities fall.

Total consolidated current liabilities increased by 27.8 % to ₱79.8 billion as at December 31, 2011 mainly due to availment of bank loans which increased by 26.2% to ₱25.7 billion in 2011 from ₱20.4 billion in 2010 and increase in accounts payable and other current liabilities by 14.6% to ₱44.7 billion in 2011 from ₱39.0 billion in 2010 mainly arising from trade transactions, subscriptions payable and accrued expenses. See Note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 12.3% to ₱1.3 billion in 2011 from ₱1.2 billion in 2010 mainly due to higher taxable income in 2011. The 348.3% or ₱6.2 billion increase in current portion of long-term debt is mainly due to the reclassification from long-term debt of loans which will mature in 2011. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. The 5.8% increase in dividends payable represents dividends to non-controlling stockholders of certain subsidiaries.

Total non-current liabilities slightly decreased by ₱0.1 billion to ₱147.0 billion in 2011 from ₱147.1 billion in 2010. Defined benefit liability decreased by ₱0.1 billion or 57.1% to ₱0.1 billion from ₱0.2 billion in 2010. Deferred tax liabilities decreased by 2.8% to ₱4.5 billion in 2011 from ₱4.6 billion in 2010. Non-current derivative liability decreased by 82.4% to ₱0.2 billion from ₱1.4 billion mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans. See Note 30 to the audited consolidated financial statements for further discussion regarding derivative transactions. Long-term debt – net of current portion decreased by ₱0.1 billion or 0.1% to ₱128.5 billion in 2011 from ₱ 128.6 billion in 2010. See Note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. These were partially offset by the increase in tenants' deposits and others by 10.8% to ₱13.7 billion in 2011 from ₱12.4 billion in 2010 mainly due to new malls and expansions and from new condominium projects of the real estate group.

Total equity amounted to ₱222.3 billion as at December 31, 2011, while total equity attributable to equity holders of the parent amounted to ₱157.7 billion. The 48.0% or ₱0.1 billion increase in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from Chinese yuan renminbi to Philippine pesos. Non-controlling interest increased by 14.8% to ₱64.6 billion in 2011 from ₱56.3 billion in 2010 mainly due to increase in net assets of certain subsidiaries. See Note 21 to the audited consolidated financial statements for further discussion regarding the stockholders' equity.

In the reconciliation of retained earnings available for dividend declaration, which is attached to SEC Form 17-A Annual Report as of December 31, 2011, the beginning balance of unappropriated retained earnings as of December 31, 2010 amounting to ₱29,017.4 million was adjusted to reflect the following adjustments:

(1) ₱248 million regarding rental income from straight line amortization in excess of actual rental payments in compliance with PAS 17 Leases and (2) ₱324 million regarding the accretion of tenants' deposits, exchanged bonds and convertible bonds in compliance with PAS 39 Financial Instruments. After the said adjustments, the beginning balance of unappropriated retained earnings amounted to ₱29,093.3 million.

Key Performance Indicators

The following are the major financial ratios of the Issuer for the years ended December 31, 2011, 2012 and 2013:

	Year ended December 31		
	2011	**2012**	**2013**
Current Ratio	1.27	1.39	
Debt-equity Ratios:			
On Gross Basis	47:53	54:46	
On Net Basis	28:72	33:67	
Return on Equity	14.2%	14.3%	
Net Income to Revenue	10.6%	11.0%	
Revenue Growth	13.0%	12.0%	
Net Income Growth	15.1%	16.3%	
EBITDA (in ₱ billions)	₱44.6	₱54.9	

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

1. Current Ratio

   Current Assets
   Current Liabilities

2. Debt – Equity Ratio

   Gross Basis

   Total Interest Bearing Debt less Pledged time deposits
   Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less Pledged time deposits

   Net Basis

   Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale
   Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale

3. Return on Equity

   Net Income Attributable to Equity Holders of the Parent
   Average Equity Attributable to Equity Holders of the Parent

4. Net Income to Revenue

   Net Income Attributable to Equity Holders of the Parent
   Total Revenue

5. Revenue Growth

   Total Revenues (Current Period) - 1
   Total Revenues (Prior Period)

6. Net Income Growth

   Net Income Attributable to Equity Holders of the Parent (Current Period) – 1

		Net Income Attributable to Equity Holders of the Parent (Prior Period)
7.	EBITDA	Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

[●]

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

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

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Issuer is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement.

There are no significant amounts of the Issuer's trade payables that have not been paid within the stated trade terms.

DESCRIPTION OF PROPERTIES

The Issuer's principally owned properties consist of malls and lands. The land improvements, buildings, equipment, owned by the Issuer have a net book value of ₱[●] million as at 31 December 2013. The locations and general descriptions of these properties and equipment are described below.

Supermalls

The Issuer has 48 malls as at 31 December 2013 in the following locations:

- SM City North EDSA
  North Avenue cor. EDSA, Quezon City
- SM City Sta. Mesa
  Ramon Magsaysay Boulevard cor. Araneta Ave., Barangay Dona Imelda, Quezon City
- SM Megamall
  EDSA cor. Julia Vargas Avenue, Ortigas Center, Mandaluyong City
- SM City Cebu
  North Reclamation Area, Cebu City, Cebu
- SM City Southmall
  Alabang Zapote Road, Almanza, Las Piñas City
- SM City Bacoor
  General Emilio Aguinaldo Highway, Bo. Habay II, Bacoor, Cavite
- SM City Fairview
  Quirino Hwy. cor. Regalado Ave. and Belfast St., Greater Lagro, Quezon City
- SM City Iloilo
  Benigno S. Aquino Jr. Avenue, Diversion Road, Mandurriao, Iloilo City, Iloilo
- SM City Manila
  Natividad Almeda-Lopez (formerly called Concepcion) corner A. Villegas (formerly called Arroceros) and San Marcelino Streets, Ermita, Manila
- SM City Pampanga
  Jose Abad Santos Avenue corner North Luzon Expressway, Brgy. Lagundi, Mexico, Pampanga and Brgy. San Jose, City of San Fernando, Pampanga
- SM City Sucat
  Dr. A. Santos Avenue corner Carlos P. Garcia Avenue Extension (C5), Brgy. San Dionisio, Parañaque City
- SM City Davao
  Quimpo Boulevard corner Tulip Drive, Ecoland Subdivision, Brgy. Matina, Davao City, Davao Region
- SM City Bicutan
  Doña Soledad Avenue, Brgy. Don Bosco, Parañaque City
- SM City Cagayan de Oro
  Brgy. Upper Carmen, Cagayan de Oro City, Misamis Oriental
- SM City Lucena
  Maharlika Highway corner Dalahican Road, Brgy. Ibabang Dupay, Lucena City, Quezon
- SM City Baguio
  Luneta Hill, Upper Session Road corner Governor Pack Road, Baguio City, Benguet

- SM City Marilao
  Mc Arthur Highway, Brgy. Ibayo, Marilao, Bulacan
- SM City Dasmariñas
  Governor's Drive, Brgy. Sampaloc 1, Dasmariñas, Cavite
- SM City Batangas
  Brgy. Pallocan Kanluran, Batangas City, Batangas
- SM City San Lazaro
  Felix Huertas Street corner Arsenio H. Lacson Extension, Santa Cruz, Manila
- SM Center Valenzuela
  Mc Arthur Highway, Karuhatan, Valenzuela City
- SM Center Molino
  Molino Road, Brgy. Molino 4, Bacoor, Cavite
- SM City Santa Rosa
  Old National Highway, Barrio Tagapo, Santa Rosa City, Laguna
- SM City Clark
  M.A. Roxas Highway, Barangay Malabanias, Angeles City, Pampanga
- SM Mall of Asia
  SM Central Business Park, North Reclamation Area, Bay City, Pasay City
- SM Center Pasig
  Frontera Verde, C5, Brgy. Ugong, Pasig City
- SM City Lipa
  J.P. Laurel Highway, Lipa City, Batangas
- SM City Bacolod
  Rizal Avenue, Reclamation Area, Bacolod City, Negros Occidental
- SM City Taytay
  Manila East Road, Brgy. Dolores, Taytay, Rizal
- SM Center Muntinlupa
  National Road, Brgy. Tunasan, Muntinlupa City
- SM City Marikina
  Marcos Highway corner East Marikina Riverbanks Service Road, Marikina Riverbanks, Calumpang, Marikina City
- SM City Rosales
  Carmen East, Rosales, Pangasinan
- SM City Baliwag
  Dona Remedios Trinidad Highway, Brgy. Pagala, Baliwag, Bulacan
- SM City Naga
  CBD II, Brgy. Triangulo, Naga City
- SM Center Las Piñas
  Alabang Zapote Rd., Brgy. Talon Dos, Las Piñas City
- SM City Rosario
  General Trias Drive, Brgy. Tejero, Rosario, Cavite
- SM City Tarlac
  Mc Arthur Highway, Brgy. San Roque, Tarlac City

- SM City San Pablo
  Brgy. San Rafael, San Pablo City, Laguna
- SM City Calamba
  National Road, Brgy. Real, Calamba City, Laguna
- SM City Novaliches
  Quirino Highway, Brgy. San Bartolome, Novaliches, Quezon City
- SM City Masinag
  Marcos Highway, Brgy. Mayamot, Antipolo City
- SM City Olongapo
  Magsaysay Drive corner Gordon Avenue, Pag-asa, Olongapo City
- SM Aura Premier
  McKinley Parkway and C5 Road corner 26th Street, Bonifacio Global City, Taguig City
- SM City BF Paranaque
  President's Avenue, Paranaque City
- SM Lanang Premier
  J. P. Laurel Avenue, Lanang, Davao City
- SM City General Santos
  San Miguel Street corner Santiago Boulevard, Lagao, General Santos City
- SM City Consolacion
  Cebu North Road, Barangay Lamac, Consolacion, Cebu
- SM City San Fernando
  V. Tiomico Street, Barangay Sto. Rosario, San Fernando, Pampanga

The Issuer has office buildings located at Harbor Drive, Mall of Asia Complex, Pasay City. As of the date of this Prospectus, there are no mortgages, liens or encumbrances over any of the properties owned by the Issuer.

Land and Development

Land and development costs pertain to the SMDC's ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱[●] million and ₱[●] million as at 31 December 2012 and 2013, respectively.

SMDC also acquired several parcels of land for future development with aggregate carrying values of ₱[●] million and ₱[●] million as at December 31, 2012 and 2013, respectively. These costs are included as part of land and development costs.

SMDC acquired Landfactors for ₱300.0 million in 2009, Vancouver Lands, Inc. (VLI) for ₱566.6 million in 2010 and Twenty Two Forty One Properties, Inc. (TTFOPI) for ₱195.6 million in 2011 and became its wholly-owned subsidiaries. The purchase of Landfactors, VLI and TTFOPI were accounted for as an acquisition of asset. Landfactors, VLI and TTFOPI own parcels of land which are being developed into commercial/residential condominium projects.

On 30 June 2004, SMDC entered into a joint venture agreement with the Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS. Under the joint venture agreement, GSIS shall contribute all its rights, title and interest in and to the property in consideration of its receipt of allocated units, which is 15% of the value of the total saleable units in the project, in return for its contribution. In turn, SMDC shall provide financing for the implementation of the project in consideration for 85% of the value of the total saleable units in the project.

On 14 July 2005, SMDC submitted to GSIS a Letter of Intent to change the GSIS subject for development. On 7 September 2005, the GSIS Board of Trustees approved the proposal of SMDC to change the GSIS subject for development. Under the amended joint venture agreement, the property will now be 14,430 square meters, more or less, a portion of the Tree Park Area of the GSIS-Baguio Convention Center.

Under the amended joint venture agreement, in the event of a decrease in the investment commitment but not below the amount of ₱1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties as agreed upon based on the original joint venture agreement. In case the reduction goes lower than ₱1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties. As at 31 December 2013, [●].

<u>Costa del Hamilo Inc., a subsidiary of Mountain Bliss Resort and Development Corporation</u>

CDHI's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As at 31 December 2010, the Company completed the construction of two condominium projects and the beach and country club. The completed condominium projects were reclassified as inventories in 2010 while the ownership of beach and country club was transferred to Pico de Loro in June 2010.

Total estimated cost to complete the ongoing projects amounts to **₱[●]** million and **₱[●]** million as at 31 December 2012 and 2013, respectively.

Depending on market conditions in the next 12 months, the Company may acquire additional properties for its commercial center, retailing and/or real estate development and tourism businesses. These potential acquisitions will depend, among others, on the execution strategies for the Group's expansion plans, and the availability of suitable properties at reasonable market prices.

Leased Properties

As at 31 December 2013, the Issuer and its subsidiaries had [●] leased properties with the following details set forth below:

Leased Properties	Lease Payments	Expiration Date	Renewal Option
SM Valenzuela	579,514,688	July 2043	No provision
SM Baguio	932,734,081	October 2053	No provision
SM Muntinlupa	256,481,672	March 2055	No provision
SM Mall of Asia	1,405,948,350	December 2030	renewable for another 25 years
SM Pasig	375,478,596	July 2020	No provision
SM Bacoor	99,128,400	December 2043; December 2044	automatically renewed for another 25 years
SM San Lazaro	148,534,084	July 2028	renewable for another 25 years
SM Calamba	654,873,461	February 2054; April 2060	automatically renewed for another 25 years
SM Sucat	301,071,429	May 2054	automatically renewed for another 25 years
SM Pampanga	245,025,138	October 2053	No provision
SM San Pablo	714,378,269	September 2058	automatically renewed for another 25 years
SM Tarlac	209,703,120	April 2054	No provision
SM Taytay	460,660,815	January 2055	No provision
SM Naga	1,167,394,180	December 2056	No provision

SM Bacolod	5,138,433	February 2032	renewable for another 25 years
SM Taytay	130,867,040	August 2034	automatically renewed for another 25 years
SM Masinag	60,911,159	April 2036	automatically renewed for another 25 years
SM Taguig Aura (Head Office)	650,064,585	November 2032; July 2033	automatically renewed for another 25 years
SM Hypermarket Sucat Lopez	206,483,735	October 2034	renewable upon agreement
SM Commonwealth (Head Office)	555,938,016	May 2035	automatically renewed for another 25 years
SM Marketmall Dasmariñas	222,778,400	March 2035	automatically renewed for another 25 years
SM Consolacion Cebu (Head Office)	1,095,455,770	September 2060	automatically renewed for another 25 years
SM General Santos (Head Office)	1,629,180,227	February 2059	No provision
SM Calamba Real (Head Office)	82,290,595	February 2054	No provision
SM Olongapo	87,914,656	December 2035	No provision
SM Megamall	119,526,563	December 2031	No provision
SM Clark	1,679,908,116	June 2028; May 2058	renewable
SM By The Bay	157,389,506	November 2017	No provision
SM Dasmariñas	680,023,978	August 2050	No provision
Total Leased Payments	**14,914,797,062**		

BOARD OF DIRECTORS AND MANAGEMENT OF THE ISSUER

Directors and Executive Officers

The following table sets forth the persons who served as a Director and/or executive officer of SMIC as at the date of this Prospectus:

Name	Position	Citizenship	Age
Henry Sy, Sr	Chairman	Filipino	86
Teresita T. Sy	Vice Chairperson	Filipino	60
Henry T. Sy, Jr.	Vice Chairman	Filipino	57
Harley T. Sy	Director and President	Filipino	51
Jose T. Sio	Director, Executive Vice President and CFO	Filipino	71
Vicente S. Perez, Jr.	Independent Director	Filipino	52
Ah Doo Lim	Independent Director	Singaporean	61
Joseph R. Higdon	Independent Director	American	69
Grace F. Roque	Treasurer	Filipino	60
Corazon I. Morando	Senior Vice President, Compliance Officer and Assistant Corporate Secretary	Filipino	69
Franklin C. Gomez	Senior Vice President	Filipino	
Marianne Malate-Guerrero	Senior Vice President	Filipino	46
Elizabeth Anne C. Uychaco	Senior Vice President	Filipino	55
Cecilia Reyes-Patricio	Senior Vice President	Filipino	53
Corazon Pilar P. Guidote	Senior Vice President	Filipino	51
Frederic C. DyBuncio	Senior Vice President	Filipino	52
Emmanuel C. Paras	Corporate Secretary	Filipino	61

Management

Board of Directors

The Directors of the Issuer are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

The following describes the background and business experience of the Issuer's Directors and Executive Officers during the last five years:

Henry Sy, Sr., is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman of SM Prime, SM Development, and Highlands Prime Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with five lines of businesses - shopping malls, retail, financial services, real estate development and tourism, hotels and conventions. He is likewise Chairman Emeritus of BDO Universal Bank, Inc. and Honorary Chairman of China Banking Corporation.

Teresita T. Sy, is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in

Shoemart's development. At present, she is the Chairman of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

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

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

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

Vicente S. Perez, Jr., is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy Partners, a renewable power company for emerging Asian countries, Chairman of Merritt Partners, an energy advisory firm, and Vice-Chairman of Ten Knots Philippines, the resort operating company of El Nido Resorts. He was the youngest and longest serving Secretary of the Department of Energy. He had also briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez is a member of the advisory boards of Coca-Cola FEMSA Phils., Pictet Clean Energy Fund, Roxas Holdings, and Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

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

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

Period of Directorship:

Name	Period Served
Henry Sy, Sr.	1960 – present
Teresita T. Sy	1979 – present
Henry T. Sy, Jr.	1979 – present
Harley T. Sy	1993 – present
Jose T. Sio	2005 – present
Vicente S. Perez, Jr.	2005 – present
Ah Doo Lim	2008 – present
Joseph R. Higdon	2010 – present

Executive Officers

Grace F. Roque is the Treasurer of SMIC. She is also the President and Chairman of Metro Manila Shopping Mecca and President and Director of HFS Corporation and Mercantile Stores Group, Inc. She holds a Bachelor Degree in Economics from Maryknoll College and a Masters in Business Administration Degree from the University of the Philippines.

Corazon I. Morando, is Senior Vice President, Corporate Legal Affairs, Compliance Officer and Assistant Corporate Secretary of SMIC. She is also the Vice President and Corporate Secretary of China Banking Corporation and Corporate Secretary and Compliance Officer of Highlands Prime, Inc.; Senior Vice President - Corporate Legal Affairs, Assistant Corporate Secretary and Compliance Officer of SM Prime; and the Corporate Secretary of Pico de Loro Beach and Country Club, Inc. She holds a Bachelor of Laws degree from the University of the Philippines and took up graduate studies under the MBA-Senior Executive Program in the Ateneo de Manila University. She was formerly Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

Franklin C. Gomez is Senior Vice President for Finance of SMIC. Prior to joining SM Investments, Mr. Franklin Gomez spent over 20 years at Unilever where he held several senior positions, his last being Finance Director and Chief Financial Officer of Unilever Indonesia since May 2009. His previous senior posts in the same company include National Finance Director at Unilever Philippines; Innovation and Learning Director at the Finance Excellence Centre in London; and Finance Director of Selecta Wall's Ice Cream, Philippines. Mr. Gomez holds a Bachelor of Arts in Economics and BSC in Accounting from De La Salle University, Manila.

Elizabeth Anne C. Uychaco, is Senior Vice President, Corporate Services of SMIC. She is also a Board Director of Belle Corporation, Megawide Construction Corporation, Republic Glass Holdings Corp., Asia Pacific College, Generali Pilipinas Holding Company, Inc., and Premium Leisure & Amusement, Inc. She was formerly Senior Vice President and Chief Marketing Officer of Philippine American Life Insurance Company and Board Director of Philam Call Center. Prior to that, she was Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

Cecilia Reyes-Patricio is the Senior Vice President, Corporate Tax Department of SMIC. Prior to joining SMIC in 1988, she was a financial and tax auditor at SyCip, Gorres Velayo & Co. She holds a Master of Science degree (with highest honors) in Commerce, Major in Taxation, from the Manuel Luis Quezon University. A Certified Public Accountant, she graduated magna cum laude with a Bachelor of Science degree in Business Administration from the University of the East.

Marianne Malate-Guerrero, is Senior Vice President, Legal Department Head of SMIC. She formerly worked as Senior Vice President and Legal Department Head of United Overseas Bank Philippines. Previous to that, she was Vice President and Legal Officer of Solidbank Corporation. She began her practice with the law firm of Castillo Laman Tan & Pantaleon Law office. She graduated from the Ateneo School of Law in 1988.

Corazon P. Guidote is Senior Vice President for Investor Relations of SMIC. She was formerly a Presidential Consultant for Investor Relations and Executive Director of the Investor Relations Office of the Republic of the Philippines. Prior to government service, she was a Director and Chief Operating Officer of ABN AMRO Asia Securities Philippines, Group Vice President for Corporate Communications and Investor Relations at Metro Pacific Corporation, and Managing Director of Citibank Securities, Philippines, Inc and UBS Securities Phils., Inc. Ms. Guidote also served as Equities Research Head in Peregrine Securities, Inc., Barclays de Zoete Wedd (BZW), and Vickers da Costa. A Certified Public Accountant, Ms. Guidote is a Bachelor of Science graduate of the University of Santo Tomas. She holds a Master in Applied Business Economics degree from the University of Asia and the Pacific and is a Chevening Fellow of the United Kingdom Foreign and Commonwealth Office. She is also a fellow at the Institute of Corporate Directors.

Frederic C. DyBuncio is Senior Vice President, Investments Portfolio of SMIC. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

Emmanuel C. Paras, is the Corporate Secretary of SMIC and other companies within the SM Group. He holds a Bachelor of Law degree from Ateneo de Manila University and is a senior partner and Head of the Corporate Services Department of the Sycip, Salazar, Hernandez and Gatmaitan Law Offices.

Period of Officership:

Name	Period Served
Grace F. Roque	2010 – present
Corazon I. Morando	2005 – present
Franklin C. Gomez	2013 – present
Elizabeth Anne C. Uychaco	2009 – present
Marianne Malate-Guerrero	2006 – present
Cecilia Reyes-Patricio	2010 – present
Corazon P. Guidote	2011 – present
Frederic C. DyBuncio	2011 – present
Emmanuel C. Paras	2005 – present

Involvement in Legal Proceedings

The Issuer is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Issuer:

(a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) any conviction by final judgement, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) being subject to any order, judgement or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgement has not been reversed, suspended or vacated; and

(e) a securities or commodities law or regulation, and the judgement has not been reversed, suspended or vacated.

Corporate Governance

The Issuer's platform of governance remains rooted in its Manual on Corporate Governance and its Code of Ethics. The Manual on Corporate Governance (the "Governance Manual"), which was revised in compliance with the SEC Revised Code of Corporate Governance in March 2010, institutionalizes the principles of good corporate governance in the entire organization. It lays down the Issuer's compliance system and identifies the responsibilities of the Board and management in relation to good corporate governance. The Governance Manual also provides for the Issuer's policies on disclosure and transparency, the conduct of communication and training programs on corporate governance, the rights of all shareholders, and the protection of the interests of non-controlling shareholders. Under the Governance Manual, it is the Board's responsibility to foster the long term success of the Issuer and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise with the highest standards of corporate governance, in the best interests of the Issuer, its shareholders and other stakeholders.

The Code of Ethics (the "Code") serves as a guiding principle for the Issuer's directors, officers and employees in the performance of their duties and responsibilities, and in their business transactions with investors, creditors, customers, contractors, suppliers, regulators, and the public. The Code also reflects the Issuer's mission, vision and values statement.

To align with the Code, the Issuer adopted policies on acceptance of gifts, insider trading, conflict of interest, related-party transactions, to name a few. The Issuer continues to align itself with corporate governance best practices through the continuous review and development of its policies and programs. The Issuer recently released its whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), which was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Furthermore, the Issuer continues to enhance its enterprise risk management systems.

The Board is composed of eight (8) directors, three (3) of whom are non-executive independent directors, in the persons of Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim, and Mr. Joseph R. Higdon. Under the Issuer's Governance Manual, an independent director must possess all of the qualifications and none of the disqualifications of a regular director. He must also be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment.

The Board is supported in its corporate governance functions by three committees: the Compensation and Remuneration Committee, the Nomination Committee and the Audit and Risk Management Committee. All Board Committees have adopted their respective charters which identify the Committees' composition, roles and responsibilities, as culled from the Issuer's Governance Manual.

Committees of the Board

Audit and Risk Management Committee. The Audit and Risk Management Committee provides an oversight of financial management functions, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks and is primarily responsible for monitoring the statutory requirements of the Issuer. The Audit and Risk Management Committee is responsible for the setting up of an internal audit department and for the appointment of an internal auditor, as well as an independent external auditor. It monitors and evaluates the adequacy and effectiveness of the Group's internal control systems. It ensures that the Board is taking appropriate corrective action in addressing control and compliance functions with regulatory agencies. It oversees the policies and procedures relating to the identification, analysis, management, monitoring and reporting of financial and non-financial risks. It also ensures the Issuer's adherence to corporate governance principles, best practices and compliance with the Governance Manual. The Audit and Risk Management Committee was constituted in April 2005 and is currently composed of Vicente S. Perez, Jr., Henry T. Sy, Jr., Jose T. Sio, Atty. Serafin U. Salvador and Atty. Corazon I. Morando. Vicente S. Perez, Jr. is an independent director and the Chairman of the Committee.

Nomination Committee. The Nomination Committee is primarily responsible for the review and evaluation of the qualifications of all persons nominated to positions requiring appointment by the Board and the assessment of the Board's effectiveness in directing the process of renewing and replacing Board members. The Nomination Committee was constituted in April 2005 and is currently composed of Henry T. Sy, Jr., Ah Doo Lim and Atty. Corazon I. Morando. Henry T. Sy, Jr. is the Chairman of the Committee.

Compensation and Remuneration Committee. The Compensation and Remuneration Committee is primarily responsible for establishing a formal and transparent process for developing policies on executive remuneration and for fixing the remuneration packages of corporate officers. It is responsible for providing oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the Group's core values, strategy and control environment. The Compensation and Remuneration Committee was constituted in April 2005 and is currently composed of Teresita T. Sy, Jose T. Sio and Vicente S. Perez, Jr. Teresita T. Sy is the Chairman of the Committee.

Under the supervision of the Nomination Committee, the Issuer conducts an annual evaluation of the Board and President, respectively, based on their duties and responsibilities under the Governance Manual and the Issuer's By-Laws. The evaluation also includes a rating of support services provided to the Board, such as the quality and timing of information given to the Board, and the frequency and conduct of meetings. The directors were also requested to identify trainings, programs or any other assistance they may need in the performance of their duties as director. The results of the annual evaluation were then presented to the Board and President to identify strengths and weaknesses and possible areas for improvement.

The Corporate Governance Department of the Issuer strives to keep pace with best practices in corporate governance through the further development of policies and projects and the continued conduct of orientation and training programs. The Corporate Governance Department also remains committed to support the advocacy and networking initiatives of public and private institutions that seek to improve corporate governance standards.

Executive Compensation

For the year ended 31 December 2013, the Board of Directors received a total of **₱[●]** million as compensation and allowances.

Aggregate compensation paid to SMIC's Chief Executive Officer and senior executive officers as a group for the last two fiscal years and the estimate for the ensuing year are as follows:

Compensation of Executive Officers and Directors (In ₱ millions)					
Name	**Principal Position**	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**
[●]	[●]				
[●]	[●]				
[●]	[●]				
[●]	[●]				
[●]	[●]				
President and 4 most highly compensated executive officers		2013 2012 2011	[●] 41.0 42.0	[●] 7.0 7.0	[●] 2.0 2.0
All other officers and Directors as a group unnamed		2013 2012 2011	[●] 110.0 92.0	[●] 18.0 15.0	[●] 4.0 4.0
Total		2013 2012 2011	[●] 151.0 134.0	[●] 25.0 22.0	[●] 6.0 6.0

Other Arrangements

There are no standard or other arrangements pursuant to which the directors of the Issuer are compensated, or are to be compensated, directly or indirectly, by the Issuer for services rendered by such directors as of the date of this Prospectus.

There are no employment contracts between the Issuer and any named executive officer.

There is no compensatory plan nor arrangement with respect to an executive officer which shall result or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Warrants and Options Outstanding

As of the date of this Prospectus, there are no outstanding warrants or options in respect of the Issuer's shares held by the Issuer's President, named executive officers and all directors and officers as a group.

Significant Employees

The Issuer has no individual employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Holders of the Issuer's Common Shares

As of 31 December 2013, the following are the top 20 stockholders of the Issuer.

	Stockholder Name	No. of shares	% to Total
1	PCD Nominee Corp. (Non-Filipino)	279,375,617	35.08%
2	Hans T. Sy	65,960,450	8.28%
3	Herbert T. Sy	65,960,450	8.28%
4	PCD Nominee Corp. (Filipino)	64,439,746	8.09%
5	Harley T. Sy	58,528,292	7.35%
6	Henry T. Sy, Jr.	58,460,450	7.34%
7	Teresita T. Sy	57,085,450	7.17%
8	Elizabeth T. Sy	46,715,484	5.87%
9	Syntrix Holdings, Inc.	31,250,000	3.92%
10	Felicidad T. Sy	25,522,060	3.20%
11	Sysmart Corporation	19,281,455	2.42%
12	Henry Sy Foundation, Inc.	15,000,000	1.88%
13	Felicidad T. Sy Foundation, Inc.	7,500,000	0.94%
14	Susana Fong	301,999	0.04%
15	Value Plus, Inc.	101,413	0.01%
16	Alberto S. Yao	52,135	0.01%
17	Belle Corporation	32,585	0.00%
18	Hector Yap Dimacali	26,068	0.00%
19	Hans Sy FAO Wonderfoods Corp.	26,068	0.00%
20	Benito Gapuz Te	26,068	0.00%

As of 31 December 2013, the Issuer has [●] shareholders of its common shares. The foreign ownership level in the Issuer is 35.09%.

Dividends and Dividend Policy

As of 31 December 2013, there are no restrictions that would limit the ability of the Issuer to pay dividends to the common stockholders, except with respect to ₱75.1 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Issuer receives the dividends from the subsidiaries.

[●]

Market Price of Issuer's Common Equity

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below.

	2013		2012	
(in ₱)	**High**	**Low**	**High**	**Low**
1st Quarter	892.00	720.00	553.60	447.20
2nd Quarter	962.40	728.00	584.00	512.00
3rd Quarter	961.50	634.00	606.40	564.00
4th Quarter	863.00	695.00	720.40	582.40

The total number of stockholders as at 31 December 2013 was [●]. Market price of the Issuer's Shares as at [14 February 2014] was ₱703.00 per share.

Recent Sales of Unregistered or Exempt Securities

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the SEC:

(a) On October 17, 2012, SMIC issued US$500.0 million 4.25% Senior Bonds due 2019. The Senior Bonds, which were listed in the SGX-ST, are considered as exempt security pursuant to Section 10 (1) of R.A. No. 8799. The lead underwriters were Citigroup Global Markets Limited, Deutsche Bank AG, Singapore Branch and J.P. Morgan Securities Plc, and the total underwriting fees and expenses amounted to US$2.5 million.

(b) On February 15, 2012, SMIC issued US$250.0 million 1.625% Convertible Bonds due 2017. The Convertible Bonds, which were listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10 (1) of R.A. No. 8799. The lead underwriters were Citigroup Global Markets Limited and J.P. Morgan Securities Limited and the total underwriting fees and expenses amounted to US$3.1 million.

(c) On September 26, 2011, SMIC issued corporate notes comprised of 7-year notes (Series A) and 10-year notes (Series B) amounting to ₱916.0 million and ₱4,084.0 million, respectively. Series A and Series B notes will mature on September 26, 2018 and September 26, 2021, respectively, and bear fixed interest rate of 5.75% and 6.625% per annum, respectively. Interests in arrears are payable semi-annually starting March 26, 2012. The corporate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Rule 9.2.2(B) of the Amended Implementing Rules and Regulations of R.A. No. 8799. The arrangers were BDO Capital, FMIC and The Hongkong and Shanghai Banking Corporation (HSBC) Limited and the total arrangers fees amounted to ₱18.8 million.

(d) On February 7, 2011, SMIC issued fixed rate notes amounting to ₱7,000.0 million which bear a fixed interest rate of 6.165% per annum, payable semi-annually. The fixed rate notes will mature on February 8, 2016. The fixed rate notes, which were issued pursuant to Rule 9.2.2(B) of the Amended Implementing Rules and Regulations of R.A. No. 8799. The arrangers were ING Bank N.V., BPI Capital Corporation, Allied Banking Corporation, FMIC, RCBC Capital Corporation and United Coconut Planters Bank and the total arrangers fees amounted to P 24.1 million. On October 13, 2010, SMIC issued US$400.0 million bonds which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears. The bonds will mature on October 13, 2017. Of this amount, US$82.9 million and US$130.8 million were exchanged from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.00% bonds due 2014, respectively. The balance of US$186.3 million represents the new money component. The bonds, which were listed in the Singapore Stock Exchange, are considered as exempt pursuant to Rule 9.2.2(B) of the Amended Implementing Rules and Regulations of R.A. No. 8799. The underwriters were BDO Capital, Citibank and HSBC and the total underwriting fees and expenses amounted to US$1.7 million.On September 22, 2009, SMIC issued US$500.0 million bonds which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014. The bonds, which were listed in Singapore Stock Exchange, are considered as exempt security pursuant to Section 10 (1) of RA No. 8799. The underwriters were Barclays Capital and Citibank and the total underwriting fees and expenses amounted to US$2.1 million.

(e) On July 17, 2008, SMIC issued a US$350.0 million 6.75% bonds due on July 18, 2013. The bonds, which were listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10 (l) of R.A. No. 8799. The sole underwriter is UBS and the total underwriting fees and expenses amounted to US$1.5 million.On August 6, 2007 and November 6, 2007, SMIC issued Series 1 and Series 2 of non-convertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. The preferred shares issued to financial and non-financial institutions are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799. The lead underwriter was ING Manila N.V. and the total underwriting fees and expenses amounted to ₱17.0 million. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱ 3,300.0 million.

(f) On March 19, 2007, SMIC issued a US$300.0 million Convertible Bonds due on March 20, 2012. The Convertible Bonds, which were listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10(g) of R.A. No. 8799. The lead underwriters were Citibank and Macquarie Securities and the total underwriting fees and expenses amounted to US$3.3 million.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As at 31 December 2013, the following are the owners of the Issuer’s common stock in excess of 5% of total outstanding shares:

Title of Class	Name & address of record owner & relationship with Issuer	Name of beneficial owner & relationship with record owner	Citizenship	No. of shares held	Percent
Common Stock	Felicidad T. Sy (shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	54,057,498	8.81%
Common Stock	Teresita T. Sy (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	45,668,360	7.44%
Common Stock	Harley T. Sy (Director and President) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	46,822,633	7.63%
Common Stock	Hans T. Sy (Shareholder of Issuer) No. 11 Harvard Road, Forbes Park, Makati City	Same as the record owner	Filipino	52,775,618	8.60%
Common Stock	Henry T. Sy, Jr. (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	46,768,360	7.62%
Common Stock	Herbert T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	52,768,360	8.60%
Common Stock	Elizabeth T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the record owner	Filipino	37,378,390	6.09%
Common Stock	PCD Nominee Corp. (Non-Filipino)	Various clients[1]	Foreign	202,133,598	32.94%
Common Stock	PCD Nominee Corp. (Filipino)	Various clients[1]	Filipino	39,081,399	6.37%

(1) The Issuer has no information as to the beneficial owners of the shares of stocks held by PCD Nominee Corp. The clients of PCD Nominee Corp. have the power to decide how their shares are to be voted.

Security Ownership of Management

As at 31 December 2013, the following are the number of Shares owned of record by the Issuer's directors and key executive officers:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership (d) Direct	Percent of Class
Common Stock	Henry Sy, Sr.	Filipino	25,732,249 (d)	4.19%
Common Stock	Teresita T. Sy	Filipino	45,668,360 (d)	7.44%
Common Stock	Harley T. Sy	Filipino	46,822,633 (d)	7.63%
Common Stock	Henry T. Sy, Jr.	Filipino	46,768,360 (d)	7.62%
Common Stock	Jose T. Sio	Filipino	11 (d)	0.00%
Common Stock	Vicente S. Perez, Jr.	Filipino	11 (d)	0.00%
Common Stock	Ah Doo Lim	Singaporean	100 (d)	0.00%
Common Stock	Joseph R. Higdon	American	100 (d)	0.00%
Common Stock	Grace F. Roque	Filipino	0	Nil
Common Stock	Ma. Ruby Ll. Cano	Filipino	3,220 (d)	0.00%
Common Stock	Corazon I. Morando	Filipino	0	Nil
Common Stock	Elizabeth Anne C. Uychaoco	Filipino	0	Nil
Common Stock	Marianne M. Guerrero	Filipino	0	Nil
Common Stock	Cecilia Reyes-Patricio	Filipino	0	Nil
Common Stock	Luis Y. Benitez	Filipino	0	Nil
Common Stock	Corazon P. Guidote	Filipino	1,700 (d)	0.00%
Common Stock	Frederic C. Dybuncio	Filipino	0	Nil
Common Stock	Emmanuel C. Paras	Filipino	0	Nil
Directors and Executive Officers as a group			164,996,744	26.88%

Voting Trust Holders of 5% or More

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

Change in Control

No change in control in the Issuer has occurred since the beginning of its last fiscal year.

Warrants and Options

As of the date of this Prospectus, there are no existing or planned stock options / stock warrant offerings.

DESCRIPTION OF DEBT

The Company is subject to covenants under agreements evidencing or governing its outstanding indebtedness, including but not limited to those set forth in loan agreements with local banks and financial institutions. Under these loans, the Company undertook to maintain a Current Ratio of not less than 0.5:1 and Debt-Equity Ratio not exceeding 75:25.

The Company does not believe that these covenants will impose constraints on its ability to finance its capital expenditure program or, more generally, to develop its business and enhance its financial performance. The Company is in full compliance with the covenants required by the creditors.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Philippine Taxation

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR, confirming the exemption or preferential rate; (ii) with respect to tax treaty relief, a certified true copy of the ruling issued by the International Tax Affairs Division of the BIR, confirming that the preferential tax treatment sought by the Bondholder is applicable; (iii) a duly notarized undertaking to immediately notify the Issuer, the Registrar and the Paying Agent of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and an agreement to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided, that the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of P1.00 for each P200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax based on the net gift on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is not a stranger. For this purpose, a stranger is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor�much's taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER

Audited Financial Statements as at and for the years ended 31 December 2011, 2012 and 2013 for the Group and the Issuer

COVER SHEET

1 6 3 4 2

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)

Ms. Ma. Ruby Ll. Cano

(Contact Person)

857-0100

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

A A C F S

(Form Type)

0 4 | 2 5

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.

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

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-3 (Group A),
February 21, 2013, valid until February 20, 2016
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669677, January 2, 2013, Makati City

March 6, 2013

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 17, 21, 28 and 29)	**₱60,714,720**	₱56,050,322
Time deposits and short-term investments (Notes 7, 19, 21, 28 and 29)	**29,090,335**	879,410
Investments held for trading and sale (Notes 8, 11, 21, 28 and 29)	**2,854,541**	1,939,709
Receivables (Notes 9, 16, 21, 28 and 29)	**16,365,552**	11,764,852
Merchandise inventories - at cost (Note 22)	**13,402,762**	13,436,456
Other current assets (Notes 10, 15, 16, 21, 28 and 29)	**23,458,208**	17,189,740
Total Current Assets	**145,886,118**	101,260,489
Noncurrent Assets		
Available-for-sale investments (Notes 11, 21, 28 and 29)	**16,912,646**	12,453,181
Investments in shares of stock of associates (Note 12)	**128,453,744**	88,417,849
Time deposits (Notes 7, 19, 21, 28 and 29)	**29,432,850**	37,416,562
Property and equipment (Note 13)	**17,186,517**	15,092,354
Investment properties (Notes 14 and 19)	**149,970,690**	131,275,911
Land and development (Note 15)	**30,197,862**	23,012,453
Intangibles (Note 16)	**15,354,200**	15,354,200
Deferred tax assets - net (Note 26)	**642,105**	694,644
Other noncurrent assets (Notes 9, 16, 21, 25, 28 and 29)	**27,767,236**	24,084,415
Total Noncurrent Assets	**415,917,850**	347,801,569
	₱561,803,968	₱449,062,058
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 29)	**₱31,793,975**	₱25,747,920
Accounts payable and other current liabilities (Notes 18, 21, 28 and 29)	**57,865,876**	44,749,807
Income tax payable	**1,474,045**	1,331,046
Current portion of long-term debt (Notes 14, 19, 21, 28 and 29)	**13,859,558**	7,920,961
Dividends payable (Notes 28 and 29)	**97,282**	25,696
Total Current Liabilities	**105,090,736**	79,775,430
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19, 21, 28 and 29)	**174,532,871**	128,464,019
Derivative liabilities (Notes 28 and 29)	**244,330**	237,980
Deferred tax liabilities - net (Note 26)	**4,542,918**	4,507,979
Tenants' deposits and others (Notes 14, 25, 27, 28 and 29)	**15,748,135**	13,789,789
Total Noncurrent Liabilities	**195,068,254**	146,999,767
Total Liabilities	**300,158,990**	226,775,197
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	**6,229,746**	6,121,640
Additional paid-in capital (Note 20)	**42,858,920**	35,536,615
Equity adjustments from business combination under common control (Note 20)	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 20)	**(125,906)**	(263,195)
Cumulative translation adjustment of a subsidiary	**266,915**	428,058
Net unrealized gain on available-for-sale investments (Notes 11 and 12)	**11,718,559**	7,008,067
Retained earnings (Note 20):		
Appropriated	**35,000,000**	5,000,000
Unappropriated	**94,458,694**	106,167,942
Total Equity Attributable to Owners of the Parent	**188,074,132**	157,666,331
Non-controlling Interests	**73,570,846**	64,620,530
Total Equity	**261,644,978**	222,286,861
	₱561,803,968	₱449,062,058

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2012	2011	2010
REVENUE			
Sales:			
Merchandise	**₱158,888,415**	₱148,182,071	₱135,570,401
Real estate and others	**23,438,959**	17,874,409	10,896,597
Rent (Notes 14, 21 and 27)	**24,155,567**	20,472,785	17,904,661
Equity in net earnings of associates (Note 12)	**9,042,034**	6,415,424	5,440,826
Cinema ticket sales, amusement and others	**4,824,228**	4,138,053	3,722,983
Management and service fees (Note 21)	**1,112,302**	880,679	807,507
Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 8, 11 and 29)	**2,055**	44,368	683,714
Dividend income (Note 21)	**628,385**	368,919	303,518
Others	**1,785,329**	1,538,940	1,599,684
	223,877,274	199,915,648	176,929,891
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	**117,896,688**	112,192,756	103,500,345
Real estate and others	**14,124,779**	10,289,007	5,995,214
Selling, general and administrative expenses (Note 23)	**44,978,822**	40,412,750	35,496,334
	177,000,289	162,894,513	144,991,893
OTHER INCOME (CHARGES)			
Interest expense (Notes 15, 17, 19, 21, 24, 28 and 29)	**(10,811,736)**	(8,836,013)	(7,652,557)
Interest income (Notes 6, 7, 8, 11, 21 and 24)	**4,416,746**	4,274,640	3,716,452
Gain on disposal of investments and properties - net (Notes 12, 13, 14 and 19)	**1,301,888**	2,623,864	1,626,816
Gain (loss) on fair value changes on derivatives - net (Notes 19 and 29)	**(1,403,411)**	366,154	243,085
Foreign exchange gain - net (Note 28)	**565,132**	242,862	407,208
	(5,931,381)	(1,328,493)	(1,658,996)
INCOME BEFORE INCOME TAX	**40,945,604**	35,692,642	30,279,002
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**6,453,836**	5,534,187	5,109,646
Deferred	**91,250**	(39,369)	291,407
	6,545,086	5,494,818	5,401,053
NET INCOME	**₱34,400,518**	₱30,197,824	₱24,877,949
Attributable to			
Owners of the Parent (Note 30)	**₱24,674,381**	₱21,224,592	₱18,440,169
Non-controlling interests	**9,726,137**	8,973,232	6,437,780
	₱34,400,518	₱30,197,824	₱24,877,949
Earnings Per Common Share (Note 30)			
Basic	**₱39.85**	₱34.68	₱30.17
Diluted	**39.08**	34.63	30.17

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
NET INCOME	**₱34,400,518**	₱30,197,824	₱24,877,949
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in unrealized gain on available-for-sale investments of associates - net (Notes 11 and 12)	**1,514,343**	440,127	2,065,101
Net unrealized gain (loss) on available-for-sale investments (Note 11)	**4,753,031**	(434,299)	1,941,882
Income tax relating to components of other comprehensive income	**3,772**	207,106	(375,510)
Cumulative translation adjustment of a subsidiary	**(205,702)**	177,178	(75,740)
	6,065,444	390,112	3,555,733
TOTAL COMPREHENSIVE INCOME	**₱40,465,962**	₱30,587,936	₱28,433,682
Attributable to			
Owners of the Parent	**₱29,223,730**	₱21,573,362	₱21,366,625
Non-controlling interests	**11,242,232**	9,014,574	7,067,057
	₱40,465,962	₱30,587,936	₱28,433,682

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									Non-controlling Interests	Total Equity
	Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Equity Adjustments from Business Combination Under Common Control (Note 20)	Cost of Parent Common Shares Held by Subsidiaries (Note 20)	Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 11 and 12)	Appropriated Retained Earnings (Note 20)	Unappropriated Retained Earnings (Note 20)	Total		
Balance at December 31, 2011	**₱6,121,640**	**₱35,536,615**	**(₱2,332,796)**	**(₱263,195)**	**₱428,058**	**₱7,008,067**	**₱5,000,000**	**₱106,167,942**	**₱157,666,331**	**₱64,620,530**	**₱222,286,861**
Net income for the year	–	–	–	–	–	–	–	**24,674,381**	**24,674,381**	**9,726,137**	**34,400,518**
Other comprehensive income	–	–	–	–	**(161,143)**	**4,710,492**	–	–	**4,549,349**	**1,516,095**	**6,065,444**
Total comprehensive income for the year	–	–	–	–	**(161,143)**	**4,710,492**	–	**24,674,381**	**29,223,730**	**11,242,232**	**40,465,962**
Issuance of Parent common shares	**108,106**	**7,216,451**	–	–	–	–	–	–	**7,324,557**	–	**7,324,557**
Disposal of Parent common shares held by subsidiaries	–	**105,854**	–	**137,289**	–	–	–	–	**243,143**	**52,402**	**295,545**
Cash dividends - ₱10.40 a share (Note 20)	–	–	–	–	–	–	–	**(6,383,629)**	**(6,383,629)**	–	**(6,383,629)**
Appropriation during the year	–	–	–	–	–	–	**30,000,000**	**(30,000,000)**	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	**(235,336)**	**(235,336)**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	**(2,108,982)**	**(2,108,982)**
Balance at December 31, 2012	**₱6,229,746**	**₱42,858,920**	**(₱2,332,796)**	**(₱125,906)**	**₱266,915**	**₱11,718,559**	**₱35,000,000**	**₱94,458,694**	**₱188,074,132**	**₱73,570,846**	**₱261,644,978**
Balance at December 31, 2010	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)	₱289,260	₱6,798,095	₱5,000,000	₱90,475,674	₱141,543,064	₱56,274,415	₱197,817,479
Net income for the year	–	–	–	–	–	–	–	21,224,592	21,224,592	8,973,232	30,197,824
Other comprehensive income	–	–	–	–	138,798	209,972	–	–	348,770	41,342	390,112
Total comprehensive income for the year	–	–	–	–	138,798	209,972	–	21,224,592	21,573,362	9,014,574	30,587,936
Issuance of Parent common shares	1,814	80,415	–	–	–	–	–	–	82,229	–	82,229
Cash dividends - ₱9.04 a share (Note 20)	–	–	–	–	–	–	–	(5,532,324)	(5,532,324)	–	(5,532,324)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	1,562,422	1,562,422
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(2,230,881)	(2,230,881)
Balance at December 31, 2011	₱6,121,640	₱35,536,615	(₱2,332,796)	(₱263,195)	₱428,058	₱7,008,067	₱5,000,000	₱106,167,942	₱157,666,331	₱64,620,530	₱222,286,861
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)	₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266
Net income for the year	–	–	–	–	–	–	–	18,440,169	18,440,169	6,437,780	24,877,949
Other comprehensive income	–	–	–	–	(55,042)	2,981,498	–	–	2,926,456	629,277	3,555,733
Total comprehensive income for the year	–	–	–	–	(55,042)	2,981,498	–	18,440,169	21,366,625	7,067,057	28,433,682
Issuance of Parent common shares	9,596	425,490	–	–	–	–	–	–	435,086	–	435,086
Acquisition of Parent common shares held by subsidiaries	–	–	–	(249,812)	–	–	–	–	(249,812)	–	(249,812)
Disposal of Parent common shares held by a subsidiary	–	–	–	10,695	–	–	–	–	10,695	–	10,695
Cash dividends - ₱7.88 a share (Note 20)	–	–	–	–	–	–	–	(4,814,862)	(4,814,862)	–	(4,814,862)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	9,688,915	9,688,915
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(1,411,491)	(1,411,491)
Balance at December 31, 2010	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)	₱289,260	₱6,798,095	₱5,000,000	₱90,475,674	₱141,543,064	₱56,274,415	₱197,817,479

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱40,945,604**	₱35,692,642	₱30,279,002
Adjustments for:			
Interest expense (Note 24)	**10,811,736**	8,836,013	7,652,557
Depreciation and amortization (Notes 13, 14 and 23)	**8,057,871**	7,193,100	6,321,252
Equity in net earnings of associates (Note 12)	**(9,042,034)**	(6,415,424)	(5,440,826)
Interest income (Note 24)	**(4,416,746)**	(4,274,640)	(3,716,452)
Gain on disposal of investments and properties - net (Notes 12, 13, 14 and 19)	**(1,301,888)**	(2,623,864)	(1,626,816)
Loss (gain) on fair value changes on derivatives - net (Note 29)	**1,403,411**	(366,154)	(243,085)
Gain on available-for-sale investments and fair value changes on investments held for trading - net (Notes 8, 11 and 29)	**(2,055)**	(44,368)	(683,714)
Dividend income	**(628,385)**	(368,919)	(303,518)
Unrealized foreign exchange loss (gain)	**(93,811)**	190,586	(435,321)
Provision for (reversal of) impairment loss (Notes 9, 10, 11, 12, 14 and 23)	**(2,743,711)**	72,567	557,536
Income before working capital changes	**42,989,992**	37,891,539	32,360,615
Decrease (increase) in:			
Land and development	**(13,700,945)**	(14,042,798)	(13,991,134)
Merchandise inventories	**33,694**	(2,950,553)	(2,725,140)
Receivables	**(1,809,471)**	(1,861,758)	(4,529,308)
Other current assets	**(6,043,200)**	(405,838)	(1,374,622)
Increase (decrease) in:			
Accounts payable and other current liabilities	**13,469,449**	4,362,657	4,442,599
Tenants' deposits and others	**2,390,156**	1,300,123	2,411,126
Defined benefit liability (Note 25)	**(48,178)**	(101,787)	(170,977)
Net cash generated from operations	**37,281,497**	24,191,585	16,423,159
Income tax paid	**(6,314,700)**	(5,390,172)	(4,991,668)
Net cash provided by operating activities	**30,966,797**	18,801,413	11,431,491
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments in shares of stock of associates	**1,870,174**	289,416	1,506,807
Property and equipment	**161,834**	265,060	210,586
Investment properties	**236,210**	141,361	194,208
Available-for-sale investments and held for trading	**2,233,812**	84,604	2,878,859
Investments held for trading	–	–	3,713,156
Additions to:			
Investment properties (Note 14)	**(27,932,103)**	(21,140,911)	(15,426,869)
Investments in shares of stock of associates	**(28,261,006)**	(7,109,378)	(1,598,303)
Property and equipment (Note 13)	**(6,614,570)**	(4,791,062)	(4,403,485)
Available-for-sale investments	**(3,237,646)**	(1,619,334)	(3,384,105)
Time deposits	**(23,005,702)**	–	–
Investments held for trading	–	–	(2,491,297)
Decrease (increase) in:			
Other noncurrent assets	**1,984,796**	1,923,878	(1,639,195)
Time deposits and short-term investments	–	–	2,583,891
Interest received	**4,208,464**	4,152,181	4,113,667
Dividends received (Note 12)	**795,953**	1,910,255	1,669,398
Net cash used in investing activities	**(77,559,784)**	(25,893,930)	(12,072,682)

(Forward)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱71,638,384**	₱27,594,082	₱33,964,598
Bank loans	**62,039,335**	23,428,370	22,828,100
Payments of:			
Long-term debt	**(14,495,495)**	(21,874,200)	(20,988,993)
Bank loans	**(55,910,180)**	(18,228,800)	(6,608,400)
Interest	**(9,918,610)**	(8,747,952)	(8,301,873)
Dividends	**(8,421,026)**	(7,761,796)	(6,224,317)
Proceeds from issuance of new common shares	**6,329,678**	–	–
Disposal of Parent common shares held by subsidiaries	**295,546**	–	10,695
Increase (decrease) in non-controlling interests	**(235,336)**	1,562,422	9,688,915
Acquisition of Parent common shares held by subsidiaries	–	–	(249,812)
Net cash provided by (used in) financing activities	**51,322,296**	(4,027,874)	24,118,913
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,729,309**	(11,120,391)	23,477,722
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(64,911)**	209,703	(63,713)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**56,050,322**	66,961,010	43,547,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱60,714,720**	₱56,050,322	₱66,961,010

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 shopping mall development, retail, real estate development and tourism, hotels and conventions and financial services and others.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 6, 2013.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

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

Statement of Compliance
The consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting January 1, 2012. The adoption of the amended standards and interpretations did not have any impact on the Group's consolidated financial statements.

Amendments to Standards and Interpretations

- PFRS 7 (Amendment), *Financial Instruments: Disclosures - Transfers of Financial Assets,* became effective for annual periods beginning July 1, 2011
- PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets,* became effective for annual periods beginning January 1, 2012

- Philippine Interpretation Questions and Answers (Q&A) 2011-02, PFRS 3.2 *Common Control Business Combinations*, effective January 1, 2012
- Philippine Interpretation Q&A 2011-03, *Accounting for Intercompany Loans*, effective January 1, 2012

Future Changes in Accounting Policies
The following are the new standards, interpretations, amendments and improvements to PFRS and Philippine Interpretations that were issued but are not yet effective as at December 31, 2012. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

New Standards and Interpretations

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Offsetting Financial Assets and Financial Liabilities,* requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  (b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  (c) The net amounts presented in the balance sheet;
  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
  (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

The Group has made an evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as of December 31, 2012 and 2011 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, and investments held for trading and available for sale investments, both carried at fair value, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost and fair value, thus, has no impact to the Group's financial position and performance.

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's other financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

The Group shall conduct another impact assessment early in 2013 using the consolidated financial statements as of and for the year ended December 31, 2012. Given the amendments on PFRS 9, the Group at present, does not plan to early adopt in its 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in its consolidated financial statements as of and for the year ending December 31, 2013. Should the Group decide to early adopt the said standard for its 2013 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2013 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

- PFRS 10, *Consolidated Financial Statements,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, Consolidation - Special Purpose Entities. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group performed a reassessment of control over its investments and assessed that this standard will not have a significant impact on its consolidated financial statements.

- PFRS 11, *Joint Arrangements,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures,* and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates.* These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- Transition guidance on PFRS 10, PFRS 11 and PFRS 12 (Amendment) will become effective for annual periods beginning January 1, 2013. The amendments changed the transition guidance to provide further relief from full retrospective application. The International Accounting Standards Board (IASB) noted that the intention in IFRS 10 was to use the date of initial application as a reference point to determine which interests must be accounted for in terms of IFRS 10, i.e., the point at which the control assessment must be made. To this end, 'the date of initial application' is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The Group does not expect this transition guidance to have a significant impact on its consolidated financial statements.

- PFRS 13, *Fair Value Measurement,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- 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.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group assessed that this new interpretation has no impact on its consolidated financial statements.

Amendments to Standards

- PAS 1, *Financial Statement Presentation* (Amendment) - *Presentation of Items of Other Comprehensive Income*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's consolidated financial statements.

- PAS 19, *Employee Benefits (Revised)*, will become effective for annual periods beginning on or after January 1, 2013. Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at December 31, 2012	As at January 1, 2012	As at January 1, 2011
		(In Thousands)	
Increase (decrease) in:			
Consolidated balance sheet			
Net defined benefit asset	₱209,283	₱311,216	₱401,557
Deferred tax liability	(30,580)	(27,102)	120,467
Other comprehensive income (net of tax)	(83,684)	(86,060)	–
Retained earnings	(7,658)	25,249	281,090

	2012	2011
	(In Thousands)	
Consolidated statements of income		
Net pension expense	(₱17,615)	(₱32,601)
Income tax expense	5,284	9,780
Net income for the year	12,331	22,821
Attributable to owners of the Parent Company	(7,658)	25,249
Attributable to non-controlling interests	19,989	(2,428)

- PAS 27, *Separate Financial Statements* (Amendment), as revised in 2011, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28, *Investments in Associates and Joint Venture* (Amendment), as revised in 2011, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Offsetting Financial Assets and Financial liabilities*. The amendments to PAS 32 are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to offset" 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 amendment affects presentation only and have no impact on the Group's financial position or performance.

Annual Improvements to PFRS (2009-2011 cycle)

The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are to be applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*. The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*. The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment.* The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments.* The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities.* The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Basis of Consolidation

Basis of Consolidation from January 1, 2010. The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

Losses from a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;

- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of Consolidation Prior to January 1, 2010. Certain of the above-mentioned policies were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Transactions with non-controlling interest without loss of control, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration transferred (received) and the proportionate share of the net assets acquired (sold) were recognized as goodwill (negative goodwill).

Losses applicable to the non-controlling interest in a consolidated subsidiary may exceed the non-controlling interest in the subsidiary's equity. The excess, and any further losses applicable to the non-controlling interest, are allocated against the controlling interest to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the controlling interest until the non-controlling interest's share in the losses previously absorbed by the controlling has been recovered. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and owners of the Parent.

The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the Group ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as at the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated statements of income as gain or loss on the disposal of the subsidiary.

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

	Percentage of Ownership			
	2012		2011	
Company	**Direct**	**Indirect**	Direct	Indirect
Shopping Mall Development				
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	**22**	**41**	22	41
Retail				
SM Retail, Inc. (SM Retail) and Subsidiaries	**100**	–	100	–
Prime Central, Inc. (Prime Central) and Subsidiaries	**100**	–	100	–
Rappel Holdings, Inc. (Rappel) and Subsidiaries	**100**	–	100	–
Real Estate Development and Tourism				
SM Land, Inc. (SM Land) and Subsidiaries:	**67**	–	67	–
SM Development Corporation (SMDC) and Subsidiaries	–	**65**	–	65
Magenta Legacy, Inc. (Magenta)	–	**99**	–	99
Associated Development Corporation	–	**100**	–	100
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	**100**	–	100	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.) and Subsidiaries	**59**	–	59	–
Intercontinental Development Corporation (ICDC)	**72**	**28**	72	28
Bellevue Properties, Inc.	**62**	–	62	–

Company	Percentage of Ownership 2012 Direct	Indirect	2011 Direct	Indirect
Tagaytay Resort Development Corporation	**33**	**25**	33	25
Hotels and Conventions				
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	**100**	–	100	–
Others				
Primebridge Holdings, Inc. (Primebridge)	**80**	**20**	80	20
Asia Pacific Computer Technology Center, Inc.	**52**	–	52	–
Multi-Realty Development Corporation (MRDC)	**91**	–	91	–
SM Arena Complex Corporation	**100**	–	–	–
Henfels Investments Corp.	**99**	–	–	–

Hotel Specialist (Davao), Inc.
In August 2012, SM Hotels incorporated Hotel Specialist (Davao), Inc., as a wholly owned subsidiary to engage in and carry on the business of hotel and resort.

Mindanao Shoppers Daily Destination Corp.(MSDD)
In July 2012, SM Retail invested ₱18.8 million or an equivalent of 75% interest in a newly incorporated company in the Philippines, MSDD. MSDD is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise. Consequently, MSDD became a subsidiary of SM Retail.

SM Arena Complex Corporation (SM Arena)
In March 2012, SMIC incorporated SM Arena, as a wholly owned subsidiary to engage in, conduct and carry on the business to manage the operations of Mall of Asia Arena, an entertainment and sporting events facility that also houses various stores.

My ShoppingLane Cebu Corporation (MSCC)
In October 2011, SM Retail invested ₱22.5 million or an equivalent of 75% interest in a newly incorporated company in the Philippines, MSCC. MSCC is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise. Consequently, MSCC became a subsidiary of SM Retail.

Hyperhome Corp. and Hyperfashion Corp. (subsidiaries of SM Retail)
In 2011, SM Retail incorporated Hyperhome Corp. and Hyperfashion Corp. as wholly owned subsidiaries to engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail, importing, exporting insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description such as but not limited to bags and luggages, clothing line and accessories and other general merchandise on a wholesale/retail basis.

SM Prime
SM Prime declared a stock dividend in 2012 which resulted in an increase of 752.4 million and 1,423.4 million common shares held by SMIC and SM Land, respectively. The declaration of stock dividend by SM Prime did not result in a change in ownership interest of the Group.

On October 14, 2010, SM Prime has undergone an international placement and engaged into a Placement Agreement with SM Land (Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners"). As stated in the Placement Agreement, SM Land shall sell its 569.6 million SM Prime common shares (the "Sale Shares") with a par value of ₱1.00 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

Contemporaneous with the signing of the Placement Agreement, SM Prime likewise entered into a Subscription Agreement with SM Land, where the latter will not directly receive any proceeds from the International Placement but has conditionally agreed to subscribe for new SM Prime common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by SM Land at a subscription price of ₱11.50 per share, which is equal to the Offer Price of the Sale Shares.

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 569.6 million SM Prime common shares. Likewise, SM Land subscribed for and SM Prime issued to SM Land the same number of new SM Prime common shares.

The placement and subscription agreements resulted in a 3% decrease in total direct and indirect ownership of the Group over SM Prime.

SMDC

SMDC declared a stock dividend in 2012 which resulted to an increase of 1.1 million and 549.4 million common shares held by SMIC and SM Land, respectively. The declaration of stock dividend by SMDC did not result to a change in the ownership interest of the Group.

In 2012, SMDC acquired Guadix Land Corporation (GLC), Lascona Land Company, Inc. (LLCI) and Metro South Davao Property Corporation (MSDPC) for ₱498.4 million, ₱1,500.0 million and ₱600.0 million, respectively, and became its wholly owned subsidiaries (see Note 15).

In 2011, SMDC acquired Twenty Two Forty One Properties, Inc. (TTFOPI) for ₱195.6 million and became its wholly owned subsidiary (see Note 15).

In 2010, SMDC acquired Vancouver Lands, Inc. (VLI) for ₱566.6 million and became its wholly owned subsidiary (see Note 15).

In January and October 2010, SMDC had a stock rights offering to eligible existing common shareholders of SMDC at the proportion of one rights share for every three existing common shares held as at record date, at an offer price of ₱3.50 and ₱6.38 per rights share, respectively.

SMIC acquired a total of 4.04 million additional SMDC shares for a total cost of ₱20.8 million. The availment of additional shares from the said offering did not result to a change in ownership interest of SMIC in SMDC.

SM Land acquired a total of 2,114.5 million additional SMDC shares for a total cost of ₱10,840.0 million, a fraction of which totaling to 32.9 million SMDC shares or a total cost of ₱115.2 million was purchased by SM Land from the unsubscribed portion of the aggregate stock rights offered by SMDC. The availment of additional shares resulted to a 0.6% increase in SM Land's interest in SMDC.

MH Holdings, Inc. (MH Holdings, Inc.)

In 2010, MH Holdings (a subsidiary of SM Retail) invested ₱72.0 million or an equivalent of 60% interest in a newly incorporated company in the Philippines, Forever Agape & Glory, Inc. (Forever Agape). Consequently, Forever Agape became a subsidiary of MH Holdings.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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

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

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

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

Rent income amounted to ₱24,155.6 million, ₱20,472.8 million and ₱17,904.7 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 14).

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

Rent expense amounted to ₱4,876.3 million, ₱3,463.7 million and ₱3,016.0 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Notes 23 and 27).

Classifying Held-to-Maturity (HTM) Investments. The classification to HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of AFS investments. In such case, the investments would therefore be remeasured at fair value and not at amortized cost.

HTM investments as at December 31, 2012 and 2011 amounted to ₱200.0 million with caption "Treasury bonds," included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets (see Notes 10 and 16).

Classifying Investments in Shares of Stock of Associates. The classification to associate requires significant judgment. In making this judgment, the Group evaluates whether it has significant influence over the investees. Management has determined that it has significant influence over its equity investments classified as associates. As such, these investments are accounted for using equity method in the consolidated financial statements.

The carrying value of investments in shares of stock of associates as at December 31, 2012 and 2011 amounted to ₱128,431.2 million and ₱88,417.8 million, respectively (see Note 12).

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

There was no impairment loss recognized on AFS investments for the years ended December 31, 2012, 2011 and 2010. The carrying values of AFS investments amounted to ₱19,307.8 million and ₱13,935.4 million as at December 31, 2012 and 2011, respectively (see Notes 8 and 11).

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

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

Allowance for impairment loss amounted to ₱155.3 million and ₱47.1 million as at December 31, 2012 and 2011, respectively (see Notes 9 and 10). Receivables, including advances and other receivables included under "Other current assets" account and receivable from a related party, noncurrent portion of receivables from real estate buyers and long-term notes included under "Other noncurrent assets" account, amounted to ₱44,849.6 million and ₱36,948.6 million as at December 31, 2012 and 2011, respectively (see Notes 9, 10 and 16).

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

Allowance for impairment loss amounted to ₱45.1 million as at December 31, 2012 and 2011. The carrying values of AFS investments amounted to ₱19,307.8 million and ₱13,935.4 million as at December 31, 2012 and 2011, respectively (see Notes 8 and 11).

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

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

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

In 2012 and 2011, the Group assessed that the net realizable values of merchandise inventories, condominium units for sale, club shares for sale and land and development are higher than cost, hence, the Group did not recognize any losses on write down of the assets. The carrying values of merchandise inventories amounted to ₱13,402.8 million and ₱13,436.5 million as at December 31, 2012 and 2011, respectively (see Note 22). The carrying values of condominium units for sale included under "Other current assets" account amounted to ₱3,286.9 million and ₱1,115.9 million as at December 31, 2012 and 2011, respectively (see Note 10). The carrying values of club shares for sale included under "Other current assets" account amounted to ₱824.2 million and ₱856.2 million as at December 31, 2012 and 2011, respectively (see Note 10). The carrying values of land and development amounted to ₱30,197.9 million and ₱23,012.5 million as at December 31, 2012 and 2011, respectively (see Note 15).

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

The total carrying values of property and equipment and investment properties amounted to ₱167,157.2 million and ₱146,368.3 million as at December 31, 2012 and 2011, respectively (see Notes 13 and 14).

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

The Group reversed impairment loss amounting to ₱3,542.7 million and ₱445.0 million in 2012 and 2011, respectively, and recognized allowance for impairment loss amounting to nil and ₱395.0 million in 2012 and 2011, respectively. Allowance for impairment loss amounted to ₱775.0 million and ₱4,317.7 million as at December 31, 2012 and 2011, respectively. The carrying values of investments in shares of stock of associates amounted to ₱128,431.2 million and ₱88,417.8 million as at December 31, 2012 and 2011, respectively (see Note 12).

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

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

Allowance for impairment loss on investment properties amounted to ₱923.3 million as at December 31, 2012 and 2011 (see Note 14). The total carrying values of property and equipment and investment properties amounted to ₱167,157.2 million and ₱146,368.3 million as at December 31, 2012 and 2011, respectively (see Notes 13 and 14).

Impairment of Goodwill, Trademarks and Brand Names with Indefinite Useful Lives. The Group's impairment test for goodwill, trademarks and brand names is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further discussed in Note 16.

The carrying values of goodwill, trademarks and brand names amounted to ₱15,354.2 million as at December 31, 2012 and 2011, respectively (see Note 16).

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

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted to ₱15,354.2 million as at December 31, 2012 and 2011 (see Note 16).

In 2012, SMIC increased its ownership in Atlas from 17.9% to 28.4%. The goodwill resulting from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 12).

In 2011, the Group acquired 17.9% equity interest in Atlas Consolidated Mining and Development Corporation (Atlas). The acquisition was accounted on provisional basis pending the fair value of Atlas' net assets as at December 31, 2011. In 2012, the fair values of the net assets acquired were finalized where the resulting goodwill from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 12).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Group's deferred tax assets was recognized.

Deferred tax assets recognized in the consolidated balance sheets as at December 31, 2012 and 2011 amounted to ₱642.1 million and ₱694.6 million, respectively, while the unrecognized deferred tax assets amounted to ₱1,902.3 million and ₱1,283.6 million as at December 31, 2012 and 2011, respectively (see Note 26).

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

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to ₱352.9 million, ₱453.7 million and ₱729.6 million as at December 31, 2012, 2011 and 2010, respectively (see Note 25). The Group's defined benefit asset amounted to ₱452.9 million and ₱394.7 million as at December 31, 2012 and 2011, respectively (see Notes 16 and 25). While the Group's defined benefit liability amounted to ₱28.3 million and ₱76.5 million as at December 31, 2012 and 2011, respectively (see Note 25).

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

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

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (see Note 32).

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Time Deposits and Short-term Investments

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

Determination of Fair Value. The fair value of financial instruments traded in active markets at reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Redeemable Preferred Shares</u>
In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory

redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and

settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheets.

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

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

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

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

Investments in Shares of Stock of Associates
The Group's investments in shares of stock of associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

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

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

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

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Property and Equipment

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

Business Combinations

Business Combinations from January 1, 2010. Business combinations are accounted for using the acquisition method except for commonly controlled transaction of which an accounting similar to pooling of interest method is used. Business combinations under commonly controlled transactions are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statements of income.

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

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

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

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

Business Combinations prior to January 1, 2010. Business combinations were accounted for using the purchase method, except for commonly controlled transactions, of which, an accounting similar to pooling of interest method is used. For purchase method of accounting, the cost of acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired entity. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from business combination" account in the equity section of the consolidated balance sheet.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest do not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statements of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated:

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

- not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

Excess of the fair values of acquired identifiable assets and liabilities of subsidiaries and associates over the acquisition cost of that interest, is credited directly to income. Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statements of income.

Intangible Assets

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

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

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

Impairment of Nonfinancial Assets

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

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

Capital Stock

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

Revenue

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

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

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

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

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

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

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

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

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

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Sale of Club Shares for Sale. Revenue is recognized when the significant risks and rewards of ownership of the club shares for sale have passed to the buyer, which is normally upon delivery of such.

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

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

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

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

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

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

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

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

Cost and Expenses
Cost of sales, selling, general and administrative expenses and interest expense are recognized as incurred.

Pension Benefits
The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains or losses and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets, out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or if there is an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or if there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

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

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

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

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the

obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Business Segments</u>
The Group is organized and managed separately according to the nature of business. The five major operating businesses of the Group are shopping mall development, retail, real estate development and tourism, hotels and conventions, and financial services and others. These operating businesses are the basis upon which the Group reports its segment information presented in Note 5 to the consolidated financial statements.

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

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

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

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

5. Segment Information

For management purposes, the Group is organized into business units based on their products and services, and has five reportable operating segments as follows: shopping mall development, retail, real estate development and tourism, hotels and conventions, and financial services and others.

The shopping mall development 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.

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

The real estate development and tourism segment is 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 conventions segment engages in and carries on the business of hotel and resort and operates and maintains any and all services and facilities incident thereto.

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.

Segment assets and liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

Segment revenue includes transfers between business segments. Such transfers are eliminated in the consolidation.

Business Segment Data

				2012			
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱25,893,283	₱161,149,617	₱25,465,935	₱1,249,814	₱10,118,625	₱–	₱223,877,274
Inter-segment	4,851,195	89,139	6,640,922	6,465	11,891,579	(23,479,300)	–
	₱30,744,478	₱161,238,756	₱32,106,857	₱1,256,279	₱22,010,204	(₱23,479,300)	₱223,877,274
Segment results:							
Income before income tax	₱14,288,706	₱9,258,062	₱11,219,643	₱19,808	₱10,061,252	(₱3,901,867)	₱40,945,604
Provision for income tax	(3,366,560)	(2,708,977)	(304,969)	(15,488)	(149,092)	–	(6,545,086)
Net income	₱10,922,146	₱6,549,085	₱10,914,674	₱4,320	₱9,912,160	(₱3,901,867)	₱34,400,518
Net income attributable to:							
Owners of the Parent	₱10,529,955	₱6,328,141	₱9,295,976	₱2,698	₱9,912,160	(₱11,394,549)	₱24,674,381
Non-controlling interests	392,191	220,944	1,618,698	1,622	–	7,492,682	9,726,137
Segment assets (excluding deferred tax)	₱151,251,163	₱67,976,666	₱147,573,728	₱1,191,178	₱244,318,016	(₱51,148,888)	₱561,161,863
Segment liabilities (excluding deferred tax)	₱76,189,733	₱34,237,153	₱56,956,479	₱402,012	₱155,030,432	(₱27,199,737)	₱295,616,072
Net cash flows provided by (used in):							
Operating activities	₱17,295,646	₱12,049,628	(₱11,899,885)	₱13,715	(₱7,102,048)	₱20,609,741	₱30,966,797
Investing activities	(21,898,570)	(205,184)	3,377,578	(411,333)	(25,153,687)	(33,268,588)	(77,559,784)
Financing activities	6,039,565	(8,195,619)	10,324,159	405,000	30,175,999	12,573,192	51,322,296
Other information:							
Investments in shares of stock of associates	₱–	₱90,039	₱11,233,223	₱–	₱117,130,482	₱–	₱128,453,744
Equity in net earnings (losses) of associates	–	(9,961)	759,201	–	8,292,794	–	9,042,034
Capital expenditures	20,710,760	5,642,614	19,257,806	415,671	2,220,767	–	48,247,618
Depreciation and amortization	3,955,642	2,858,638	473,756	122,620	647,215	–	8,057,871
Provision for (reversal of) impairment losses	–	–	108,142	–	(2,743,711)	–	(2,635,569)

				2011			
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱22,267,973	₱150,472,734	₱19,269,290	₱964,227	₱6,941,424	₱–	₱199,915,648
Inter-segment	4,658,879	2,883,744	3,499,070	1,130	12,815,388	(23,858,211)	–
	₱26,926,852	₱153,356,478	₱22,768,360	₱965,357	₱19,756,812	(₱23,858,211)	₱199,915,648
Segment results:							
Income (loss) before income tax	₱12,220,391	₱8,242,661	₱10,133,163	(₱158,168)	₱9,286,422	(₱4,031,827)	₱35,692,642
Provision for income tax	(2,838,169)	(2,360,704)	(202,350)	(15,501)	(82,574)	4,480	(5,494,818)
Net income (loss)	₱9,382,222	₱5,881,957	₱9,930,813	(₱173,669)	₱9,203,848	(₱4,027,347)	₱30,197,824
Net income (loss) attributable to:							
Owners of the Parent	₱9,055,996	₱5,809,110	₱9,924,500	(₱173,448)	₱9,203,848	(₱12,595,414)	₱21,224,592
Non-controlling interests	326,226	72,847	6,313	(221)	–	8,568,067	8,973,232
Segment assets (excluding deferred tax)	₱131,376,199	₱71,926,765	₱111,560,497	₱1,135,344	₱196,580,640	(₱64,212,031)	₱448,367,414
Segment liabilities (excluding deferred tax)	₱62,951,059	₱36,123,463	₱38,861,479	₱348,154	₱118,724,932	(₱34,741,869)	₱222,267,218

	2011						
Net cash flows provided by (used in):							
Operating activities	₱17,863,454	₱7,656,609	(₱6,664,084)	(₱1,275,790)	₱4,643,410	(₱3,422,186)	₱18,801,413
Investing activities	(14,946,526)	1,158,138	(5,165,755)	(260,063)	(271,559)	(6,408,165)	(25,893,930)
Financing activities	(4,359,445)	(8,154,976)	6,085,058	114,820	(7,183,829)	9,470,498	(4,027,874)
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱11,544,914	₱–	₱76,872,935	₱–	₱88,417,849
Equity in net earnings of associates	–	–	522,904	–	5,892,520	–	6,415,424
Capital expenditures	16,641,751	4,219,155	15,912,625	68,687	3,132,553	–	39,974,771
Depreciation and amortization	3,829,971	2,409,174	348,848	122,214	482,893	–	7,193,100
Provision for impairment losses	–	–	479,657	118	73,611	–	553,386

	2010						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱19,288,439	₱138,007,620	₱12,974,162	₱600,679	₱6,058,991	₱–	₱176,929,891
Inter-segment	4,273,228	3,110,643	3,043,464	–	10,338,408	(20,765,743)	–
	₱23,561,667	₱141,118,263	₱16,017,626	₱600,679	₱16,397,399	(₱20,765,743)	₱176,929,891
Segment results:							
Income before income tax	₱10,796,848	₱8,371,466	₱8,778,124	(₱111,965)	₱10,253,381	(₱7,808,852)	₱30,279,002
Provision for income tax	(2,656,715)	(2,429,969)	(217,396)	(3,663)	(104,286)	10,976	(5,401,053)
Net income (loss)	₱8,140,133	₱5,941,497	₱8,560,728	(₱115,628)	₱10,149,095	(₱7,797,876)	₱24,877,949
Net income (loss) attributable to:							
Owners of the Parent	₱7,856,348	₱5,783,035	₱8,552,486	(₱116,449)	₱10,149,095	(₱13,784,346)	₱18,440,169
Non-controlling interests	283,785	158,462	8,242	821	–	5,986,470	6,437,780
Segment assets (excluding deferred tax)	₱119,193,199	₱65,302,951	₱94,117,055	₱2,485,527	₱190,577,330	(₱64,868,623)	₱406,807,439
Segment liabilities (excluding deferred tax)	₱56,069,831	₱30,496,617	₱35,150,201	₱1,525,299	₱116,317,898	(₱34,629,696)	₱204,930,150
Net cash flows provided by (used in):							
Operating activities	₱13,913,250	₱6,283,721	₱6,561,292	₱675,210	(₱12,548,272)	(₱3,453,710)	₱11,431,491
Investing activities	(14,382,761)	1,328,401	(10,933,360)	(889,640)	11,477,877	1,326,801	(12,072,682)
Financing activities	6,402,803	(6,512,363)	16,421,135	1,908,623	3,823,818	2,074,897	24,118,913
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱5,900,870	₱–	₱64,959,311	₱–	₱70,860,181
Equity in net earnings of associates	–	–	530,499	–	4,910,327	–	5,440,826
Capital expenditures	11,373,974	4,010,949	15,602,168	25,432	2,808,965		33,821,488
Depreciation and amortization	3,616,926	1,724,578	374,859	57,850	547,039	–	6,321,252
Provision for impairment losses	–	–	36,108	–	521,428	–	557,536

6. Cash and Cash Equivalents

This account consists of:

	2012	2011
	(In Thousands)	
Cash on hand and in banks (see Note 21)	**₱6,098,368**	₱6,384,567
Temporary investments (see Notes 17 and 21)	**54,616,352**	49,665,755
	₱60,714,720	₱56,050,322

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 (see Note 24).

7. Time Deposits and Short-Term Investments

This account consists of:

	2012	2011
	(In Thousands)	
Time deposits:		
Pledged (see Notes 19 and 21)	**₱19,498,750**	₱20,824,000
Not pledged (see Note 21)	**38,203,435**	16,595,172
	57,702,185	37,419,172
Short-term investments (see Note 21)	**821,000**	876,800
	58,523,185	38,295,972
Less current portion	**29,090,335**	879,410
Noncurrent portion	**₱29,432,850**	₱37,416,562

A portion of the time deposits amounting to US$475.0 million, with peso equivalents of ₱19,498.8 million and ₱20,824.0 million as at December 31, 2012 and 2011, respectively, were used as collateral for loans obtained by SMIC (see Note 19).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱821.0 million and ₱876.8 million as at December 31, 2012 and 2011, respectively, bear a fixed interest rate of 3.24%.

Interest income earned on time deposits and short-term investments is further discussed in Note 24.

8. Investments Held for Trading and Sale

This account consists of:

	2012	2011
	(In Thousands)	
Investments held for trading -		
Bonds (see Notes 21 and 29)	**₱459,343**	₱457,496
AFS investments (see Note 11):		
Bonds and corporate notes (see Notes 21 and 29)	**1,733,752**	1,000,000
Shares of stock	**661,446**	482,213
	2,395,198	1,482,213
	₱2,854,541	₱1,939,709

The Group recognized a gain of ₱16.3 million, ₱13.4 million and ₱5.7 million from fair value adjustments of investments held for trading for the years ended December 31, 2012, 2011 and 2010 respectively. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income. Interest income earned on investments held for trading and sale is further discussed in Note 24.

9. Receivables

This account consists of:

	2012	2011
	(In Thousands)	
Trade:		
Real estate buyers	**₱23,373,079**	₱13,833,732
Third-party tenants	**3,123,358**	2,623,529
Related-party tenants (see Note 21)	**1,512,842**	1,267,728
Due from related parties (see Note 21)	**2,465,971**	2,684,558
Management fees:		
Related parties (see Note 21)	**154,172**	95,892
Third parties	**–**	3,942
Dividends	**292,917**	42,015
Total	**30,922,339**	20,551,396
Less allowance for impairment loss	**155,274**	47,132
	30,767,065	20,504,264
Less noncurrent portion of receivables from real estate buyers (see Note 16)	**14,401,513**	8,739,412
Current portion	**₱16,365,552**	₱11,764,852

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years' term.

- The terms and conditions relating to related party receivables are further discussed in Note 21.

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

The movements in allowance for impairment loss are as follows:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱47,132**	₱12,476
Reversal of provision	**–**	(1,162)
Provision for the year (see Note 23)	**108,142**	35,818
Balance at end of year	**₱155,274**	₱47,132

Allowance for impairment loss amounting to ₱155.3 million and ₱47.1 million as at December 31, 2012 and 2011, respectively, pertains to receivables from real estate buyers and tenants which were identified through specific assessment.

The aging analysis of receivables as at December 31, 2012 and 2011 are as follows:

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

	2011					
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
			(In Thousands)			
Trade:						
Real estate buyers:						
Current	₱4,862,273	₱44,111	₱21,834	₱130,402	₱35,700	₱5,094,320
Noncurrent	8,739,412	–	–	–		8,739,412
Related-party tenants	1,267,719	–	9	–	–	1,267,728
Third-party tenants	2,606,027	995	5,075	–	11,432	2,623,529
Due from related parties	2,684,558	–	–	–	–	2,684,558
Management fees:						
Related parties	95,892	–	–	–	–	95,892
Third parties	3,942	–	–	–	–	3,942
Dividends	42,015	–	–	–	–	42,015
Net receivables before allowance for doubtful accounts	₱20,301,838	₱45,106	₱26,918	₱130,402	₱47,132	₱20,551,396

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

10. Other Current Assets

This account consists of:

	2012	2011
	(In Thousands)	
Non-trade receivables	**₱4,252,786**	₱2,673,412
Prepaid taxes and other prepayments	**5,295,701**	3,785,637
Advances to contractors	**3,374,278**	3,098,881
Condominium units for sale (see Note 15)	**2,670,943**	1,115,878
Receivable from banks and credit cards	**2,352,836**	2,083,278
Input tax	**1,704,159**	1,019,280
Accrued interest receivable	**1,174,785**	966,503
Club shares for sale	**824,213**	856,208
Supplies and uniform inventory	**474,146**	474,803
Treasury bonds (see Note 16)	**200,000**	–
Derivative assets (see Notes 28 and 29)	**18,501**	–
Advances for project development (see Note 21)	**1,121,565**	1,121,565
	23,463,913	17,195,445
Less allowance for impairment loss	**5,705**	5,705
	₱23,458,208	₱17,189,740

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

- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on a 30 to 90 day's term.

- Accrued interest receivable relates mostly to time deposits which will be collected at respective maturity dates.

- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

- Club shares for sale pertain to club shares of Pico de Loro Beach and Country Club (Pico de Loro) which Costa, a subsidiary of Mt. Bliss, received as consideration for the parcel of land and construction costs of the beach and country club. The club shares entitle its holders to proprietary club membership in Pico de Loro's beach and country club facilities. Costa's club shares for sale had a total of 6,919 and 7,055 as at December 31, 2012 and 2011, respectively.

  On the other hand, at various dates in 2012, 2011 and 2010, Costa sold 135, 202 and 696 club shares for a total consideration of ₱70.8 million, ₱105.0 million and ₱320.6 million, respectively. Revenue from the sale of club shares recognized under "Sales - real estate and others" account in the statements of consolidated income amounted to ₱32.9 million, ₱48.3 million and ₱127.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

- Allowance for impairment loss amounting to ₱5.7 million as at December 31, 2012 and 2011, pertains to nontrade receivables which were identified through specific assessment. There was no additional impairment loss identified based on the collective assessments made in 2012, 2011 and 2010.

11. **Available-for-Sale Investments**

This account consists of investments in:

	2012	2011
	(In Thousands)	
Shares of stock:		
Listed	**₱11,516,716**	₱7,031,822
Unlisted	**102,120**	102,265
Bonds and corporate notes (see Note 21)	**7,728,240**	6,841,109
Club shares	**5,900**	5,330
	19,352,976	13,980,526
Less allowance for impairment loss	**45,132**	45,132
	19,307,844	13,935,394
Less current portion (see Note 8)	**2,395,198**	1,482,213
Long-term portion	**₱16,912,646**	₱12,453,181

- Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to ₱3,587.0 million and ₱2,159.8 million as at December 31, 2012 and 2011, respectively, were pledged as collateral for a portion of the Group's long-term loans (see Note 19).

- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.

- Investments in bonds and corporate notes as at December 31, 2012 and 2011 include third party convertible bonds and corporate notes with fixed interest rates ranging from 2.5% to 8.25%. These investments will mature on various dates from February 11, 2013 to November 3, 2017.

  The account includes investment in redeemable preferred shares issued in 2010 by a domestic corporation with an annual dividend rate of 8.25% and SM Prime's investment in corporate notes issued by BDO Unibank, Inc. (BDO) in 2012 and 2011with fixed interest rate of 6.80% (see Note 21). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The outstanding investment in redeemable preferred shares as at December 31, 2010 was redeemed in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

  Investment in convertible bonds as at December 31, 2012 and 2011 have embedded derivatives which are further discussed in Note 29.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱7,008,067**	₱6,798,095
Share in net unrealized gain on AFS investments of associates (see Note 12)	**1,486,257**	440,127
Gain (loss) due to changes in fair value of AFS investments	**3,224,165**	(199,308)
Transferred to consolidated statements of income	**70**	(30,847)
Balance at end of year	**₱11,718,559**	₱7,008,067

Gain (loss) on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income amounted to (₱0.1) million for the year ended December 31, 2012, ₱30.8 million for the year ended December 31, 2011 and ₱481.3 million for the year ended December 31, 2010. The amounts are exclusive of the share of non-controlling interests.

12. **Investments in Shares of Stock of Associates**

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

	2012	2011
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱66,416,206**	₱54,114,191
Additions	**28,361,006**	12,590,225
Disposals – net of realized deferred gain	**(1,937,089)**	(288,210)
Balance at end of year	**92,840,123**	66,416,206
Accumulated equity in net earnings:		
Balance at beginning of year	**26,319,348**	21,113,648
Equity in net earnings	**9,042,034**	6,415,424
Dividends received	**(418,470)**	(1,583,351)
Accumulated equity in net earnings of investments sold	**(68,587)**	(66,500)
Balance at end of year	**34,874,325**	25,879,221
Share in net unrealized gain on AFS investments of associates (see Note 11)	**1,514,343**	440,127
Allowance for impairment loss:		
Balance at beginning of year	**4,317,705**	4,367,658
Recovery (see Note 23)	**(3,542,658)**	(445,000)
Additions (see Note 23)	–	395,047
Balance at end of year	**775,047**	4,317,705
	₱128,453,744	₱88,417,849

The Group recognized its share in the net gain on AFS investments of the associates amounting to ₱1,491.8 million, ₱440.1 million and ₱2,065.1 million, inclusive of the share of the non-controlling interests amounting to ₱28.1 million, ₱15.3 million and ₱69.0 million, respectively, for the years ended December 31, 2012, 2011 and 2010, respectively, in the consolidated statements of comprehensive income.

In 2011 and 2010, the Group recognized allowance for impairment loss in investment in Highlands Prime, Inc. (HPI) amounting to ₱395.0 million and ₱380.0 million, respectively, and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statements of income (see Note 23). The allowance recognized by the Group was based on fair value less cost to sell of the investment in reference to the quoted stock price in the market.

In 2012 and 2011, the Group reversed the allowance for impairment loss in investment in BDO amounting to ₱3,542.7 million and ₱445.0 million, respectively, and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statements of income (see Note 23). The Group made a reassessment of its investments in shares of stock of BDO and concluded that the impairment is no longer necessary in reference to the quoted stock price of BDO in the market.

The major associates of the Group are as follows:

	Percentage of Ownership				
	2012		2011		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
BDO	**48**	**47**	47	46	Financial services
China Banking Corporation (China Bank)	**23**	**21**	23	21	Financial services
Atlas	**29**	**29**	18	18	Mining
Belle Corp. (Belle)	**32**	**18**	46	26	Real estate development and tourism
HPI	**35**	**27**	35	27	Real estate development and tourism
Summerhills Home Development Corporation (SHDC)	**49**	**21**	49	21	Real estate development and tourism
Sodexo Motivation Solutions Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**25**	–	–	Retail

<u>Atlas</u>

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

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

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

<u>Belle</u>
In 2010, the Group obtained 17.53% additional ownership in Belle for a total consideration of ₱1,598.3 million. The acquisition resulted in Belle becoming an associate of the Group at 24.77% and 13.24% gross and effective ownership, respectively, as at December 31, 2010.

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

At various dates in 2012, the Group sold 1,509.0 million Belle shares on which the Group realized ₱811.2 million of the deferred gain and was recognized under "Gain on disposal of investments and properties - net" account in the consolidated statements of income. The remaining balance of the deferred gain as at December 31, 2012 amounted to ₱1,076.4 million. The disposal of Belle shares resulted to a decrease in the Group's direct and effective ownership to 32% and 18%, respectively.

BDO
In 2010, SMIC and a related party under common stockholder entered into a deed of assignment whereby the related party cedes, transfers, conveys and assigns to the Company, all commercial rights of the related party's investment in BDO amounting to ₱5,712.0 million.

At various dates in 2010, SMIC disposed a total of 5.3 million BDO common shares, which is equivalent to 0.2% of the total outstanding common stock of BDO at an average price of ₱28.63 a share or for a total cost of ₱151.8 million.

In April 2010, Primebridge and MRDC disposed a total of 21.5 million BDO common shares, which is equivalent to 0.8% of the total outstanding common stock of BDO at an average price of ₱22.65 a share or for a total cost of ₱486.2 million.

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

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

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

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

China Bank
At various dates in 2010, SMDC disposed a total of 0.09 million China Bank shares, which is equivalent to 0.08% of the total outstanding common stock of China Bank, at an average price of ₱340.8 a share or for a total cost ₱31.1 million.

On August 24, 2012, SEC approved the Amended Articles of Incorporation of China Bank to effect a ten-for-one stock split of the common shares. This resulted to an increase in the number of shares from 200 million to 2,000 million, and a reduction in par value of shares from ₱100.00 to

₱10.00 per share. The stock split by China Bank did not result to a change in the ownership interest of the Group.

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

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

The condensed financial information of significant associates is shown below:

	2012	2011	2010
		(In Millions)	
BDO:			
Total resources	**₱1,244,408**	₱1,097,349	
Total liabilities	**1,087,156**	1,000,387	
Interest income	**54,014**	50,467	₱49,930
Interest expense	**17,816**	16,688	15,772
Net income	**14,432**	10,588	8,881
China Bank:			
Total resources	**322,021**	262,213	
Total liabilities	**283,030**	222,924	
Interest income	**13,164**	12,677	13,213
Interest expense	**5,104**	4,125	4,580
Net income	**5,034**	5,009	5,004
HPI:			
Total assets	**4,038**	4,661	
Total liabilities	**1,284**	1,937	
Revenue from real estate sales	**521**	331	427
Cost of real estate sold	**284**	164	230
Net income (loss)	**32**	(35)	8
Belle:			
Total assets	**25,461**	22,644	
Total liabilities	**8,849**	6,568	
Revenue	**421**	697	1,263
Cost of real estate and club shares sold	**117**	236	509
Net income	**555**	200	478
Atlas:			
Total assets	**57,913**	46,923	
Total liabilities	**22,354**	19,933	
Revenue	**14,459**	12,128	8,851
Cost of sales	**8,679**	7,759	6,815
Net income (loss)	**3,434**	17,223	(431)

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

	2012	2011
	(In Thousands)	
BDO	**₱134,986,770**	₱80,928,951
China Bank	**15,987,281**	10,594,301
Belle	**16,268,509**	24,670,664
Atlas	**11,272,094**	5,325,521
HPI	**1,575,258**	1,036,979

13. 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, 2010	₱2,945,232	₱4,534,292	₱6,638,725	₱3,253,276	₱3,050,238	₱2,424,501	₱2,629,192	₱626,380	₱699,668	₱26,801,504
Additions	26,970	118,732	784,783	635,960	620,339	507,700	1,188,675	258,957	648,946	4,791,062
Reclassifications	1,893	2,549	(615,945)	317,809	(186,048)	(120,348)	(61,331)	(3,365)	(383,445)	(1,048,231)
Disposals/retirements	–	(1)	(86,520)	(74,484)	(27,304)	(10,407)	(43)	(301,378)	–	(500,137)
Balance as at December 31, 2011	2,974,095	4,655,572	6,721,043	4,132,561	3,457,225	2,801,446	3,756,493	580,594	965,169	30,044,198
Additions	183,851	1,594,292	1,119,843	428,180	767,679	690,525	1,180,589	38,469	611,142	6,614,570
Reclassifications	(744,956)	764,325	(115,484)	141,191	(184,867)	(23,739)	87,977	6,043	(329,884)	(399,394)
Disposals/retirements	–	(2,644,901)	(148,498)	(163,128)	(57,536)	(99,186)	(35,118)	(31,879)	(11,474)	(3,191,720)
Balance as at December 31, 2012	**₱2,412,990**	**₱4,369,288**	**₱7,576,904**	**₱4,538,804**	**₱3,982,501**	**₱3,369,046**	**₱4,989,941**	**₱593,227**	**₱1,234,953**	**₱33,067,654**
Accumulated Depreciation and Amortization										
Balance as at December 31, 2010	₱–	₱2,262,529	₱4,544,869	₱2,394,063	₱1,300,562	₱1,454,709	₱1,172,404	₱303,829	₱–	₱13,432,965
Depreciation and amortization	–	246,322	713,596	418,680	427,925	296,607	533,033	47,467	–	2,683,630
Reclassifications	–	(582)	(598,186)	(31,281)	(106,226)	(115,046)	(88,726)	(2,934)	–	(942,981)
Disposals/retirements	–	–	(85,128)	(41,815)	(26,695)	(1,306)	–	(66,826)	–	(221,770)
Balance as at December 31, 2011	–	2,508,269	4,575,151	2,739,647	1,595,566	1,634,964	1,616,711	281,536	–	14,951,844
Depreciation and amortization	–	381,307	825,626	493,886	500,992	387,047	706,389	52,514	–	3,347,761
Reclassifications	–	(127,122)	(236,144)	(3,049)	(42,307)	(53,726)	32,125	(99)	–	(430,322)
Disposals/retirements	–	(1,535,720)	(154,118)	(120,030)	(50,391)	(90,035)	(18,228)	(19,624)	–	(1,988,146)
Balance as at December 31, 2012	**₱–**	**₱1,226,734**	**₱5,010,515**	**₱3,110,454**	**₱2,003,860**	**₱1,878,250**	**₱2,336,997**	**₱314,327**	**₱–**	**₱15,881,137**
Net Book Value										
As at December 31, 2012	**₱2,412,990**	**₱3,142,554**	**₱2,566,389**	**₱1,428,350**	**₱1,978,641**	**₱1,490,796**	**₱2,652,944**	**₱278,900**	**₱1,234,953**	**₱17,186,517**
As at December 31, 2011	₱2,974,095	₱2,147,303	₱2,145,892	₱1,392,914	₱1,861,659	₱1,166,482	₱2,139,782	₱299,058	₱965,169	₱15,092,354

As at December 31, 2012 and 2011, the Group has no idle property and equipment and the carrying amount of fully depreciated property and equipment still in use amounted to ₱4,644.3 million and ₱4,148.3 million, respectively.

14. **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, 2010	₱27,302,498	₱84,785,047	₱15,973,989	₱12,828,906	₱140,890,440
Additions	2,606,363	2,762,132	932,825	14,839,591	21,140,911
Reclassifications	508,106	6,742,227	549,958	(7,138,201)	662,090
Translation adjustment	153,159	387,953	64,394	186,433	791,939
Disposals	–	(6,113)	–	(48,474)	(54,587)
Balance as at December 31, 2011	30,570,126	94,671,246	17,521,166	20,668,255	163,430,793
Additions	4,766,518	10,150,742	2,907,309	10,107,534	27,932,103
Reclassifications	(186,572)	7,850,434	1,260,406	(13,493,898)	(4,569,630)
Translation adjustment	(159,893)	(611,091)	(71,572)	(220,612)	(1,063,168)
Balance as at December 31, 2012	**₱34,990,179**	**₱112,061,331**	**₱21,617,309**	**₱17,061,279**	**₱185,730,098**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2010	₱1,123,236	₱18,075,582	₱8,024,378	₱–	₱27,223,196
Depreciation and amortization	46,470	3,186,275	1,276,725	–	4,509,470
Reclassifications	–	217,003	–	–	217,003
Impairment loss	–	–	–	123,564	123,564
Translation adjustment	7,731	51,228	22,690	–	81,649
Balance as at December 31, 2011	1,177,437	21,530,088	9,323,793	123,564	32,154,882
Depreciation and amortization	72,584	3,229,407	1,408,119	–	4,710,110
Reclassifications	(323,275)	(664,505)	(179)	–	(987,959)
Translation adjustment	(10,232)	(76,254)	(31,139)	–	(117,625)
Balance as at December 31, 2012	**₱916,514**	**₱24,018,736**	**₱10,700,594**	**₱123,564**	**₱35,759,408**
Net Book Value					
As at December 31, 2012	**₱34,073,665**	**₱88,042,595**	**₱10,916,715**	**₱16,937,715**	**₱149,970,690**
As at December 31, 2011	₱29,392,689	₱73,141,158	₱8,197,373	₱20,544,691	₱131,275,911

The movements in allowance for impairment loss on land and improvements and land use rights, and construction in progress are as follows:

	2012	2011
	(In Thousands)	
Beginning balance	**₱923,272**	₱799,708
Provision for the year (see Note 23)	–	123,564
Ending balance	**₱923,272**	₱923,272

The fair values of investment properties as at December 31, 2011 were determined by independent appraisers based on various appraisal reports made in 2010, which amounted to ₱291,671.9 million. The fair value, which is based on market data approach, 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.

Included under "Land" account are the 212,119 square meters and 223,474 square meters of real estate properties with a carrying value of ₱447.0 million and ₱474.0 million as at December 31, 2012 and 2011, respectively, and a fair value of ₱13,531.0 million as at August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make Enterprises Limited and Affluent Capital Enterprises Limited (Oriental Land) with Grand China and Oriental Land Development Limited on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱4,852 million and ₱3,896 million as at December 31, 2012 and 2011, respectively, and estimated fair value of ₱10,874 million and ₱13,541 million as at December 31, 2012 and 2011, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱24,155.6 million, ₱20,472.8 million and ₱17,904.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱13,995.2 million, ₱12,277.5 million and ₱11,271.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Construction in progress account includes shopping mall complex under construction of SM Prime. In 2012, Shopping Mall Complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF-Paranaque, SM Seaside City Cebu, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Clark, SM City Dasmarinas, SM City Sta. Rosa and SM Megamall. In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin.

Shopping mall complex under construction includes cost of land amounting to ₱1,615.0 million and ₱1,575.0 million as at December 31, 2012 and 2011, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱53,964.0 million and ₱39,240.0 million as at December 31, 2012 and 2011, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as at December 31, 2012 and 2011 are valued at ₱14,393.0 million and ₱10,268.0 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱114.4 million and ₱54.3 million in 2012 and 2011, respectively. Capitalization rates used were 6.13% and 5.71% in 2012 and 2011, respectively.

15. Land and Development and Condominium Units for Sale

This account consists of the following:

	2012	2011
Condominium units for sale	**₱2,670,943**	₱1,115,878
Land and development	**30,197,862**	23,012,453
	₱32,868,805	₱24,128,331

Land and development, which amounted to ₱30,197.9 million and ₱23,012.5 million as at December 31, 2012 and 2011, respectively, include land and cost of ongoing condominium projects.

Condominium units for sale amounting to ₱2,670.9 million and ₱1,115.9 million as at December 31, 2012 and 2011, respectively, pertain to completed projects of SMDC, Costa and ICDC. The amounts were included under "Other current assets" account in the consolidated balance sheets (see Note 10).

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

	2012	2011
At beginning of year	**₱1,115,878**	₱1,531,486
Transfer from land and development	**2,624,448**	–
Additions	**89,698**	165,613
Recognized as real estate sold	**(1,159,081)**	(581,221)
At end of year	**₱2,670,943**	₱1,115,878

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

	2012	2011
At the beginning of year	**₱23,012,453**	₱19,703,595
Land acquired during the year	**4,909,701**	4,394,807
Development cost incurred	**15,384,282**	9,363,199
Borrowing cost capitalized	**1,003,610**	411,743
Recognized as real estate sold	**(11,204,375)**	(10,571,767)
Transfer to condominium units for sale	**(2,624,448)**	–
Transfer to property and equipment (see Note 13)	**(208,897)**	(289,124)
Transfer to investment property (see Note 14)	**(74,464)**	–
At end of year	**₱30,197,862**	₱23,012,453

The condominium units for sale and land and development are stated at cost as at December 31, 2012 and 2011.

Borrowing costs capitalized by the Group to land and development account amounted to ₱1,003.6 million and ₱411.7 million in 2012 and 2011, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.3% to 8.3% in 2012 and 3.7% to 7.5% in 2011. Interest expense charged to operations amounted to ₱469.0 million, ₱488.3 million and ₱311.3 million in 2012, 2011 and 2010, respectively.

SMDC

Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱29,012.9 million and ₱30,587.9 million as at December 31, 2012 and 2011, respectively.

In 2012, SMDC acquired GLC, LLCI and MSDPC for ₱1,500.0 million, ₱600.0 million and ₱498.4 million, respectively, and became its wholly owned subsidiaries. The purchase of GLC, LLCI and MSDPC was accounted for as an acquisition of asset. At acquisition date, these subsidiaries own parcels of land which are to be developed into commercial/residential condominium projects.

In 2011, SMDC acquired TTFOPI for ₱195.6 million and became a wholly owned subsidiary. The purchase of TTFOPI was accounted for as an acquisition of asset. TTFOPI owns a parcel of land which is currently being developed into a commercial/residential condominium project.

In 2010, SMDC acquired VLI for ₱566.6 million and became its wholly owned subsidiary. The purchase of VLI was accounted for as an acquisition of asset. VLI owns a parcel of land which will be developed into a commercial/residential condominium project.

On June 30, 2004, SMDC entered into a Joint Venture Agreement with Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS. As at December 31, 2012, the development of the said project has not yet started.

Costa
Costa's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As at December 31, 2012, Costa completed the construction of four condominium projects and the beach and country club. Total estimated cost to complete the ongoing projects amounted to ₱113.9 million and ₱283.8 million as at December 31, 2012 and 2011, respectively.

In April 2010, the construction of Pico de Loro by Costa was completed but the ownership of the risk and rewards of the beach and country club was transferred to Pico de Loro in June 2010. The total actual cost of beach and country club, in exchange for a total of 4,000 club shares amounted to ₱1,128.2 million as at December 31, 2010.

16. Intangibles and Other Noncurrent Assets

Intangibles
This account consists of:

	2012	2011
	(In Thousands)	
Goodwill	**₱9,321,057**	₱9,321,057
Less accumulated impairment loss	**91,619**	91,619
Net book value	**9,229,438**	9,229,438
Trademarks and brand names	**6,124,762**	6,124,762
	₱15,354,200	₱15,354,200

Goodwill is allocated to SM Prime, SM Land, Pilipinas Makro, Inc. (PMI), Supervalue, Inc. (SVI) and Super Shopping Market, Inc. (SSMI) as separate cash generating units. Trademarks and brand names pertain to that of the supermarket and hypermarket business of the Group which were acquired in a business combination in 2006. The trademarks and brand names were assessed to have an indefinite life and was valued using the Relief-from-Royalty Method. The royalty rate was 3.5%, which was the prevailing royalty rate in 2006 in the retail assorted category where the two entities fall.

The recoverable amount of goodwill, trademarks and brand names have been determined using the cash flow projections based on the financial budgets approved by senior management covering a three-year period. The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 6.61% to 9.14% and 8.18% to 10.82% as at December 31, 2012 and 2011, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry.

The rate was further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. Management assessed that no reasonable possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2012 and 2011 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2012	2011
	(In Thousands)	
Receivables from real estate buyers (see Note 9)	**₱14,401,513**	₱8,739,412
Deposits and advance rentals	**8,149,028**	5,030,882
Advances for project development (see Note 21)	**1,962,578**	–
Deferred input VAT	**962,629**	380,994
Defined benefit asset (see Note 25)	**452,910**	394,713
Long-term notes (see Note 21)	**306,724**	506,724
Derivative assets (see Notes 28 and 29)	**109,979**	159,461
Receivable from a related party and escrow fund (see Note 21)	**98,996**	8,195,691
Treasury bonds (see Note 10)	–	200,000
Others	**1,322,879**	476,538
	₱27,767,236	₱24,084,415

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

- Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.50% as at December 31, 2012 and 2011. The ₱200.0 million will mature on November 21, 2017, ₱88.6 million will mature on May 29, 2018 and the remaining ₱218.1 million will mature on March 20, 2019. In November 2012, the Group received a full payment from BDO for the early redemption of the long-term note amounting to ₱200.0 million.

- Treasury bonds pertain to quoted Philippine government treasury bonds classified as held-to-maturity investment which bear fixed interest rates ranging from 8.5% to 9.0% and payable quarterly. The ₱200.0 million treasury bonds will mature on July 31, 2013.

- In 2009, various cash advances were provided to a related party for payment of interest, purchase of shares and other operating requirements totaling to ₱6,000.0 million, which bears a fixed interest of 7.0%, payable semi-annually and will mature in 2013 (see Note 21). At various dates in 2012, the cash advances were prepaid by the related party.

  Escrow fund amounting to ₱99.0 million and ₱2,195.7 million as at December 31, 2012 and 2011, respectively, pertains mainly to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration.

17. **Bank Loans**

This account consists of:

	2012	2011
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱2,052,500**	₱3,857,920
Peso-denominated loans	**11,783,400**	15,500,000
Subsidiaries -		
Peso-denominated loans	**17,958,075**	6,390,000
	₱31,793,975	₱25,747,920

The U.S. dollar-denominated loans amounting to US$50 million (₱2,052.5 million) and US$88.0 million (₱3,857.9 million) as at December 31, 2012 and 2011, respectively, bear interest at 3-month London Inter-Bank Offered Rate (LIBOR) plus margin (see Note 28). The peso-denominated loans bear annual interest rates ranging from 3.25% to 5.00% and 3.60% to 4.26% in 2012 and 2011, respectively. These loans have maturities of less than one year (see Note 21).

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

This account consists of:

	2012	2011
	(In Thousands)	
Trade	**₱34,304,241**	₱28,639,479
Payable arising from acquisition of land	**6,100,508**	3,116,058
Due to related parties (see Note 21)	**3,265,015**	2,734,415
Accrued interest (see Notes 17, 19 and 21)	**2,537,777**	1,702,660
Derivative liabilities (see Notes 28 and 29)	**2,493,651**	124,222
Payable to government agencies	**2,334,796**	1,426,230
Nontrade	**2,276,078**	2,078,768
Gift checks redeemable and others	**2,672,556**	2,088,702
Accrued expenses (see Note 21)	**1,881,254**	1,738,068
Subscriptions payable	**–**	1,101,205
	₱57,865,876	₱44,749,807

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.
- Payable arising from, 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 one to three years.
- The terms and conditions relating to due to related parties are discussed in Note 21.
- Gift checks are redeemable at face value.

- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.
- In September 2011, the Group exercised its 1:6 stock rights entitlement with Belle for 734.1 million shares at ₱3 per share. The availment did not affect the Group's direct ownership with Belle which remained at 46.0%. The unpaid subscription amounted to ₱1,101.2 million as at December 31, 2011. This was settled in April 2012.

19. Long-term Debt

This account consists of:

	2012			2011		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
			(In Thousands)			
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds	**₱61,813,938**	**(₱449,782)**	**₱61,364,156**	₱43,990,263	(₱357,171)	₱43,633,092
Convertible bonds	**9,407,559**	**(183,247)**	**9,224,312**	979,645	(8,256)	971,389
Peso-denominated:						
Seven-year and ten-year fixed rate corporate notes	**4,995,000**	**(37,757)**	**4,957,243**	5,000,000	(42,578)	4,957,422
Five-year fixed rate corporate notes	**6,699,043**	**(36,984)**	**6,662,059**	6,700,000	(49,708)	6,650,292
Five-year and seven-year retail bonds	**9,400,000**	**(32,107)**	**9,367,893**	9,400,000	(47,422)	9,352,578
Seven-year and ten-year retail bonds	**14,282,270**	**(118,549)**	**14,163,721**	–	–	–
Bank loans collateralized with time deposits	**3,000,000**	**(6,635)**	**2,993,365**	8,950,000	(15,070)	8,934,930
Preferred shares	–	–	–	200,000	(131)	199,869
Other bank loans	**8,050,000**	**(10,945)**	**8,039,055**	9,548,500	(17,921)	9,530,579
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	**11,083,500**	**(186,538)**	**10,896,962**	6,356,800	(255,267)	6,101,533
Two-year, three-year and five-year bilateral loans	**1,026,250**	**(5,008)**	**1,021,242**	1,096,000	(11,071)	1,084,929
Other bank loans	**2,463,000**	**(24,888)**	**2,438,112**	3,068,800	(38,021)	3,030,779
China yuan-renminbi denominated:						
Three-year loan	**1,111,112**	–	**1,111,112**	1,299,441	–	1,299,441
Five-year loan	**2,272,374**	–	**2,272,374**	2,599,819	–	2,599,819
Eight-year loan	–	–	–	277,388	–	277,388
Peso-denominated:						
Three-year and five-year fixed rate notes	**18,313,000**	**(84,747)**	**18,228,253**	10,000,000	(55,774)	9,944,226
Five-year and ten-year fixed and floating rate notes	**7,500,000**	**(57,081)**	**7,442,919**	–	–	–
Five-year, seven-year and ten-year fixed and floating rate notes	**5,000,000**	**(33,540)**	**4,966,460**	–	–	–
Five-year, seven-year and ten-year corporate notes	**6,860,000**	**(36,161)**	**6,823,839**	6,930,000	(45,829)	6,884,171
Five-year and ten-year corporate notes	**1,100,000**	**(7,849)**	**1,092,151**	4,289,350	(24,457)	4,264,893
Five-year floating rate notes	**4,950,000**	**(29,172)**	**4,920,828**	5,000,000	(37,587)	4,962,413
Five-year, seven-year and ten-year fixed rate notes	**800,000**	**(4,658)**	**795,342**	1,997,030	(11,355)	1,985,675
Five-year bilateral loans	**500,000**	**(2,009)**	**497,991**	546,875	(2,584)	544,291
Other bank loans	**9,133,550**	**(20,510)**	**9,113,040**	9,203,500	(28,229)	9,175,271
	189,760,596	**(1,368,167)**	**188,392,429**	137,433,411	(1,048,431)	136,384,980
Less current portion	**13,889,278**	**(29,720)**	**13,859,558**	7,935,231	(14,270)	7,920,961
Noncurrent portion	**₱175,871,318**	**(₱1,338,447)**	**₱174,532,871**	₱129,498,180	(₱1,034,161)	₱128,464,019

Parent Company

Fixed Rate Bonds
On October 17, 2012, SMIC issued US$500.0 million senior bonds, with peso equivalent of ₱20,525.0 million as at December 31, 2012, which bear a fixed interest rate of 4.25% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019.

On October 13, 2010, SMIC issued US$400.0 million bonds (₱15,641.8 million) which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱7,356.2 million) additional bonds, and US$82.9 million (₱3,199.4 million) and US$130.8 million (₱5,086.2 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.0% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

On September 22, 2009, SMIC issued US$500.0 million bonds, with peso equivalent of ₱15,564.4 million and ₱16,622.2 million as at December 31, 2012 and 2011, which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱10,082.8 million and ₱10,768.1 million as at December 31, 2012 and 2011, respectively, which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed at the option of the relevant holder beginning July 18, 2011 at the principal amount.

Convertible Bonds

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

The conversion option entitles the holder 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, unless previously redeemed, converted or purchased and cancelled, 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. No conversion options were exercised as at December 31, 2012.

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

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

US$300.0 million Convertible Bonds
On March 19, 2007, SMIC issued at face zero coupon US$300.0 million Convertible Bonds (financial liability component amounted to nil and ₱979.6 million as at December 31, 2012 and 2011, respectively), with a yield to maturity of 3.5% due on March 20, 2012 at 118%. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 29.

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted or purchased and cancelled. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2012 and 2011, the bondholders of US$16.0 million (₱813.6 million) and US$1.7 million (₱82.2 million) bonds, respectively, opted to convert their holdings into 1,710,587 and 181,364 of SMIC's shares (see Note 20). The fair value of the related derivative liability derecognized upon conversion amounted to US$4.2 million (₱181.50 million) and US$0.3 million (₱11.0 million) in 2012 and 2011, respectively (see Notes 18 and 29).

The remaining value of convertible bond amounting to US$4.7 million (₱201.4 million) matured on March 20, 2012, resulted to a gain of ₱28.8 million, shown under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon maturity amounted to US$3.9 million (₱28.8 million) (see Note 29).

The put option entitles the bondholders to require the Parent Company to redeem all or some of its Bonds on March 19, 2010 (put date) at 110.97%. A total of US$246.3 million (₱11,253.5 million) bonds were redeemed, which resulted in a gain of ₱844.6 million shown under "Gain (loss) on fair value changes on derivatives - net" " account in the 2010 consolidated statements of income. The fair value of the related derivative liability derecognized upon early redemption amounted to US$35.2 million (₱1,609.7 million) (see Note 29).

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

<u>Seven-year and Ten-year Fixed Rate Corporate Notes</u>
On September 26, 2011, SMIC issued fixed rate corporate notes comprised of seven-year or Series A Notes and ten-year or Series B Notes due on September 26, 2018 and September 26, 2021, respectively. The total issuance amounted to ₱916.0 million and ₱4,084.0 million for the Series A and Series B Notes, respectively.

The Series A Notes have a term of seven years from the issue date, with a fixed interest rate equivalent to 5.75% per annum payable semi-annually in arrears starting March 26, 2012. The Series B Notes have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.625% per annum payable semi-annually in arrears starting March 26, 2012.

The Series A and B Notes have principal repayment of 0.1% of the principal amount in annual installments that will commence on the twelfth (12^{th}) month from the issue date, with the last installment payment to be made on maturity date.

Outstanding balance as at December 31, 2012 for the Series A and B Notes amounted to ₱915.1 million and ₱4,079.9 million, respectively.

Five-year Fixed Rate Corporate Notes

On February 7, 2011, SMIC issued corporate notes amounting to ₱6,700.0 million, which bear a fixed interest rate of 6.17% per annum, payable semi-annually in arrears. The corporate notes will mature on February 8, 2016. The notes have principal repayment of ₱1.0 million that will commence on the twelfth (12th) month from the issue date, with the last installment payment to be made on maturity date. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱6,699.0 million and ₱6,700.0 million, respectively.

Five-year and Seven-year Retail Bonds

On June 25, 2009, SMIC issued fixed rate bonds, which comprised of five-year or Series A Bonds and seven-year or Series B Bonds due on June 26, 2014 and June 25, 2016, respectively. The total issuance amounted to ₱8,400.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

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

Seven-year and Ten-year Retail Bonds

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

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

Bank Loans Collateralized with Time Deposits

On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The loans are based on a three-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus an agreed margin. Interest on these loans is payable quarterly in arrears.

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest based on a three-month PDST-F rate plus an agreed margin, payable quarterly in arrears. On October 12, 2011, SMIC paid ₱50.0 million of this loan. The remaining value amounting to ₱5,950.0 million matured on October 16, 2012.

These loans are collateralized by a portion of SMIC's time deposits amounting to US$475.0 million with peso equivalents of ₱19,498.8 million and ₱20,824.0 million as at December 31, 2012 and 2011, respectively (see Note 7).

Preferred Shares
On August 6, 2007, SMIC issued Series 1 and Series 2 of non-convertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. Each share has a par value of ₱10.0 a share and an offer price of ₱10,000 a share.

The Series 1 preferred shares carry a fixed dividend rate of 7.51% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus an agreed margin. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

The preferred shares are mandatorily redeemable on August 6, 2012 at redemption price, which consists of (1) 100% of the offer price; (2) all unpaid cash dividends accruing thereon, if any, and/or in the event no cash dividends are declared for the relevant period, an amount equivalent to the sum of the cash dividends on the preferred shares had dividends been declared and paid for the relevant period; and (3) any charges on unpaid amounts due then outstanding. SMIC has an option to early redeem the preferred shares subject to certain conditions. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million. Series 2 preferred shares amounting to ₱200.0 million was redeemed on August 6, 2012.

Other Peso Bank Loans
This account includes the following:

	2012	2011
	(In Thousands)	
Ten-year term loans	**₱2,050,000**	₱2,050,000
Seven-year term loans	**3,000,000**	4,498,500
Five-year term loans	**3,000,000**	3,000,000
	₱8,050,000	₱9,548,500

- In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear fixed interest rates of 6.85% and 6.71% per annum, respectively. Outstanding balances of these loans as at December 31, 2012 and 2011 amounted to ₱1,550.0 million.

- In April 2008, SMIC obtained seven-year and ten-year term loans amounting to ₱500.0 million each, which bear fixed interest rates of 8.56% and 8.79% per annum, respectively. The seven-year term loan has annual principal repayment of ₱0.5 million that will commence on the twelfth (12th) month from the issue date, with the last installment payment to be made on maturity date. On April 25, 2012, SMIC paid the total outstanding balance of the seven-year term loan amounting to ₱498.5 million. Outstanding balance of the seven-year and ten-year term loans amounted to nil and ₱500.0 million as at December 31, 2012, respectively, and ₱498.5 million and ₱500.0 million as at December 31, 2011, respectively.

- In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest rate of 7.28% per annum. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱1,000.0 million.

- The seven-year term loans also include ₱2,000.0 million and ₱1,000.0 million fixed rate loans with interest rates of 6.90% and 6.91%, respectively. It likewise includes ₱2,000.0 million floating rate loan with interest based on 3-month PDST-F plus an agreed margin. The loans will mature in October and November 2014. On January 31, 2011 and November 23, 2012, SMIC prepaid the ₱2,000.0 million and ₱1,000.0 million fixed rate loans respectively. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱2,000.0 million and ₱3,000.0 million, respectively.

- In February 2009, SMIC obtained a five-year term loan amounting to ₱3,000.0 million which bears a floating interest rate based on a 6-month PDST-F plus margin. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱3,000.0 million.

- The five-year term loans obtained in 2006 amounting to ₱600.0 million and ₱400.0 million bear fixed interest rates of 7.58% and 6.65% per annum and matured in October and November 2011, respectively.

Subsidiaries

US Dollar-denominated Five-year Term Loans
This represents a US$270.0 million unsecured loans obtained on various dates in 2012 and 2011 by SM Prime. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016.

US Dollar-denominated Two-year, Three-year and Five-year Bilateral Loans
The US$75.0 million unsecured loans were obtained by SM Prime in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. SM Prime prepaid the US$30.0 million (₱1,386.0 million) and the US$20.0 million (₱950.4 million) unsecured loans on November 30, 2010 and June 1, 2009, with original maturity dates of November 28, 2011 and November 19, 2010, respectively. The related unamortized debt issuance costs charged to expense amounted ₱4.0 million in 2010. The remaining balance of US$25.0 million will mature on November 20, 2013.

Other US Dollar-denominated Bank Loans
This consists of the following:

- *US Dollar-denominated Five-year Bilateral Loans.* This represents the US$10.0 million (₱410.5 million) out of US$50.0 million unsecured loan obtained by SM Prime on December 7, 2012. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017. The balance of US$40.0 million will be fully drawn in 2013.

- *US Dollar-denominated Five-year Bilateral Loans*. The US$20.0 million (₱821.0 million) and US$30.0 million (₱1,231.5 million) five-year bilateral unsecured loans were obtained by SM Prime on April 15, 2011 and November 30, 2010, respectively. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on November 30, 2015.

- *US Dollar-denominated Three-year Bilateral Loans.* The US$40.0 million (₱1,753.6 million) three-year bilateral unsecured loans were obtained by SM Prime on July 13, 2010 and October 15, 2009. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on January 14, 2013 and October 15, 2012, respectively. The US$20 million (₱876.8 million) loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2.0 million. The remaining US$20.0 million loan was prepaid on January 13, 2012.

China Yuan Renminbi-denominated Three-year Loan
This represents a three-year loan obtained by SM Prime on March 28, 2011 amounting to ¥250.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥187.4 million (₱1,299.4 million) was made as at December 31, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears an interest rate of 6.20% and 6.66% in 2012 and 2011, respectively.

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

- This represents a five-year loan obtained by SM Prime on August 26, 2009 amounting to ¥350.0 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2012 and 6.21% in 2011 (see Note 29).

- This represents a five-year loan obtained by SM Prime on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥0.9 million (₱6.2 million) and ¥60.0 million (₱408.8 million) was made in 2012 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2012 and 5.32% in 2011 (see Note 29).

China Yuan Renminbi-denominated Eight-year Loan
This represents an eight-year loan obtained by SM Prime on December 28, 2005 amounting to ¥155.0 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.35% in 2012 and 2011. The loan matured and was paid in December 2012 (see Note 29).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 14).

Philippine Peso-denominated Three-year and Five-year Fixed Rate Notes
This consists of the following:

- On December 27, 2012, SMDC obtained long-term loan amounting to ₱2,000.0 million from a local bank with an interest rate of 4.72%, payable quarterly and will mature on December 23, 2015.

- On April 27, 2012, SMDC issued five-year fixed rate corporate notes amounting to ₱6,313.0 million which will mature on various dates starting April 27, 2013 up to July 27, 2017. The notes have fixed interest rate of 6.01% payable semi-annually.

- On June 1, 2010, SMDC issued a three-year and five-year fixed rate corporate notes amounting to ₱2,000.0 million and ₱8,000.0 million, respectively. The three-year and five-year fixed rate notes bear fixed interest rates of 6.8% and 7.7%, respectively, payable semi-annually and will mature on June 1, 2013 and June 2, 2015, respectively. SMDC has an option to prepay the notes subject to a fixed prepayment penalty. The prepaid amount shall include the outstanding principal obligation, any accrued interest on the notes and the prepayment penalty.

Philippine Peso-denominated Five-year and Ten-year Fixed and Floating Rate Notes
This represents a five-year and ten-year floating and fixed rate notes obtained by SM Prime on June 19, 2012 amounting to ₱3,450.0 million and ₱1,000.0 million for the floating and ₱680.0 million and ₱2,370.0 million for the fixed, respectively. The loans bear an interest rate based on PDST-F plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on January 12, 2012 amounting to ₱200.0 million, ₱1,012.0 million, ₱133.0 million, and ₱3,655.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes obtained by SM Prime amounting to ₱3,000.0 million, ₱1,134.0 million, ₱52.5 million and ₱813.5 million, respectively, out of ₱7,000.0 million facility obtained on December 20, 2010. The remaining ₱2,000.0 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 29).

Philippine Peso-denominated Five-year and Ten-year Corporate Notes
This represents a five-year floating and fixed rate notes and ten-year fixed rate note obtained by SM Prime on April 14, 2009 amounting to ₱200.0 million, ₱3,700.0 million and ₱1,100.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively . SM Prime prepaid the ₱200.0 million and ₱3,700.0 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17.0 million (see Note 29).

Philippine Peso-denominated Five-year Floating Rate Notes
This represents a five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000.0 million and ₱1,000.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000.0 million and ₱1,200.0 million were prepaid on June 17, 2011 and 2012, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4.0 million and ₱ 5.0 million in 2011 and 2012, respectively (see Notes 29).

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

- Five-year term loan obtained by a subsidiary of SM Prime on October 24, 2011 amounting to ₱500.0 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 29).

- Five-year term loan obtained by a subsidiary of SM Prime on September 28, 2007 and November 6, 2007 amounting to ₱250.0 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 29). The loan matured and was paid in September 2012.

Other Bank Loans - Subsidiaries
This account includes the following:

	2012	2011
	(In Thousands)	
Ten-year term loan	**₱1,200,000**	₱1,200,000
Five-year term loans	**7,933,550**	8,003,500
	₱9,133,550	₱9,203,500

- On August 16, 2006, SM Prime obtained a ten-year bullet fixed rate loan amounting to ₱1,200.0 million which bears a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 29).

- The following five-year term loans were obtained by various subsidiaries:

Year Obtained	Maturity	Subsidiary	**2012**	2011	Interest Rate (see Note 30)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱2,000.0	PDST-F plus an agreed margin
		SM Prime	**980.0**	990.0	Agreed fixed rate less PDST-F
		SM Land	**222.8**	225.0	Fixed rate of 6.75%
		Costa	**118.8**	120.0	Fixed rate of 7.0%
		SM Land	**75.0**	75.0	PDST-F plus an agreed margin
2009	2014	SM Prime	**3,000.0**	3,000.0	PDST-F plus an agreed margin
		SM Land	**1,387.0**	1,393.5	Fixed rate of 5.69-6.75%
		SM Land	**150.0**	200.0	PDST-F plus an agreed margin
			₱7,933.6	₱8,003.5	

The repricing frequencies of floating rate loans range from three to six months.

A portion of these loans is collateralized by temporary investment and shares of stocks. The carrying values of the collaterals approximate the amoutns of the loans (see Note 11)

Debt Issue Cost
The movements in unamortized debt issue cost in 2012 and 2011 are as follows:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱1,048,431**	₱956,541
Additions	**652,989**	483,475
Amortization (see Note 24)	**(296,977)**	(264,457)
Prepayments	**(36,276)**	(127,128)
Balance at end of year	**₱1,368,167**	₱1,048,431

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2013	₱13,889,278	(₱29,720)	₱13,859,558
2014	33,227,646	(128,321)	33,099,325
2015	25,906,340	(92,701)	25,813,639
2016	28,418,203	(265,365)	28,152,838
2017	37,035,204	(408,208)	36,626,996
2018	3,844,303	(17,927)	3,826,376
2019	27,455,949	(273,848)	27,182,101
2020	814,619	(5,996)	808,623
2021	4,117,494	(31,380)	4,086,114
2022	15,051,560	(114,701)	14,936,859
	₱189,760,596	(₱1,368,167)	₱188,392,429

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2012 and 2011, the Group is in compliance with the terms of its loan covenants.

20. **Equity**

Capital Stock
As at December 31, 2012 and 2011, SMIC’s authorized capital stock is composed of 690,000,000 common shares and 10,000,000 redeemable preferred shares with a par value of ₱10.0 a share. The issued and subscribed redeemable preferred shares are nil and 20,000 as at December 31, 2012 and 2011, respectively, and accounted for as a liability (see Note 19). SMIC’s issued and subscribed common shares are 622,974,620 and 612,164,033 as at December 31, 2012 and 2011, respectively.

As at December 31, 2012, the Company is compliant with the minimum public float as required by the PSE.

At various dates in 2012 and 2011, 1,710,587 common shares and 181,364 common shares, respectively, were issued as a result of conversion of SMIC’s convertible bonds (see Note 19). The excess of conversion price over par value totaling ₱977.8 million and ₱80.4 million, respectively, are presented under “Additional paid-in capital” account in the consolidated balance sheets.

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

Simultaneously, SMIC entered into a Subscription Agreement with the selling shareholders, where SMIC agreed to issue new SMIC 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 ₱91.0 million and ₱6,238.7 million, respectively.

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

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010		340,858	453
November 3, 2010		309,387	453
November 25, 2010		309,386	453
August 17, 2011		10,668	453
September 26, 2011		170,696	453
January 2, 2012		21,337	453
January 10, 2012		16,002	453
January 11, 2012		298,718	453
January 26, 2012		90,682	453
February 3, 2012		679,584	453
February 8, 2012		279,515	453
March 8, 2012		250,070	453
March 12, 2012		10,668	453
March 13, 2012		64,011	453
September 24, 2012		9,100,000	700

The Parent Company declared stock dividends in 2007. The total number of shareholders of the Parent Company is 1,263 and 1,304 as at December 31, 2012 and 2011, respectively.

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 at December 31, 2012 amounting to ₱125.9 million pertains to 390,491 shares with an average cost of ₱322.4 per share. The cost of common shares held by subsidiaries as at December 31, 2011 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

In various dates in 2012, SM Land and MRDC disposed a total of 430,000 Parent common shares at a total selling price of ₱323.9 million. The disposal resulted in a total gain of ₱184.5 million where the portion of the gain pertaining to the interest of the Parent Company and Non-controlling interest is recognized under “Additional paid-in capital” and “Non-controlling interests” account, respectively, in the consolidated balance sheets.

Additional Paid-in Capital
The movements in “Additional paid-in capital” account in the consolidated balance sheets are as follows:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱35,536,615**	₱35,456,200
Adjustments from additional issuance of shares	**7,216,451**	80,415
Gain on sale of Parent common shares held by subsidiaries	**105,854**	–
Balance at end of year	**₱42,858,920**	₱35,536,615

Equity adjustments from business combination under common control
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.

Retained Earnings
On December 14, 2012, the BOD approved the appropriation of ₱30,000.0 million retained earnings. As at December 31, 2012, the total appropriated retained earnings is ₱35,000.0 million.

Projects	Timeline	2012
		(In Thousands)
Hotel projects	2013–2015	₱8,000,000
Commercial buildings	2012–2016	10,000,000
Acquisition of investments	2012–2013	17,000,000
		₱35,000,000

On April 26, 2012, the BOD approved the declaration of cash dividends of 104.0% of the par value or ₱10.40 per share for a total amount of ₱6,383.6 million in favor of stockholders on record as at May 22, 2012. This was paid on June 21, 2012.

On April 27, 2011, the BOD approved the declaration of cash dividends of 90.4% of the par value or ₱9.04 per share for a total amount of ₱5,532.3 million in favor of stockholders on record as at May 27, 2011. This was paid on June 22, 2011.

On April 28, 2010, the BOD approved the declaration of cash dividends of 78.8% of the par value or ₱7.88 per share for a total amount of ₱4,814.9 million in favor of stockholders on record as at May 27, 2010. This was paid on June 21, 2010.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱93,346.9 million and ₱75,086.8 million as at December 31, 2012 and 2011, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

21. **Related Party Transactions**

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2012, 2011 and 2010, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year-end by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Related parties under common stockholders refer to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

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.

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 sotckholder).

Management and Service Fees
The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. (related parties under common sotckholder) 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.

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.

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 6, 7 and 16).

The Group also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

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.

The consolidated balance sheets and statements of income include the following amounts resulting from the above transactions with related parties as at December 31:

Category	Year	Amount/Volume	Outstanding balance	Terms	Condition
			(In Thousands)		
Bank Associates					
Cash placement and investment in debt securities	**2012**	**₱54,171,200**	**₱114,014,248**	Interest bearing 0.5% to 6.55%	Unsecured; no impairment
	2011	(41,171,620)	59,843,048		
	2010	16,896,687	101,014,668		
Interest income	**2012**	**3,950,656**	**1,011,987**	Interest bearing 4.9% to 6.47%	Unsecured; no impairment
	2011	3,125,270	841,418		
	2010	3,013,880	754,064		
Loans	**2012**	**(5,175,006)**	**32,021,644**	Interest-bearing 3.25% to 8.79%	Unsecured; no impairment
	2011	10,084,368	37,196,650		
	2010	18,100,663	27,112,282		
Interest expense	**2012**	**859,134**	**286,719**	Interest-bearing 3.25% to 8.79%	Unsecured; no impairment
	2011	738,231	190,583		
	2010	1,161,073	115,581		
Rent income	**2012**	**52,860**	**2,547**	Noninterest bearing	Unsecured; no impairment
	2011	40,408	351		
	2010	27,744	2,263		
Retail Entities under Common Stockholders					
Rent income	**2012**	**4,002,084**	**1,516,066**	Noninterest bearing	Unsecured; no impairment
	2011	2,945,053	1,267,728		
	2010	2,985,019	878,452		
Management fee income	**2012**	**713,226**	**154,172**	Noninterest bearing	Unsecured; no impairment
	2011	564,160	95,892		
	2010	695,395	353,691		
Management fee expense	**2012**	**872,853**	**2,020**	Noninterest bearing	Unsecured; no impairment
	2011	779,814	104,963		
	2010	656,131	86,287		
Dividend income	**2012**	**552,768**	**292,917**	Noninterest bearing	Unsecured; no impairment
	2011	222,089	42,015		
	2010	188,472	–		
Service income	**2012**	**1,097**	**49,098**	Noninterest bearing	Unsecured; no impairment
	2011	127,589	–		
	2010	26,202	–		
Due from related parties	**2012**	**1,040,720**	**2,413,171**	Noninterest bearing	Unsecured; no impairment
	2011	(384,608)	1,372,451		
	2010	(1,966,159)	1,757,059		
Due to related parties	**2012**	**530,600**	**3,265,015**	Noninterest bearing	Unsecured; no impairment
	2011	766,475	2,734,415		
	2010	510,696	1,967,940		
Other Related Parties					
Receivable under common Stockholders	**2012**	**(7,312,107)**	**52,800**	Interest-bearing Fixed at 4.5% in 2012 and 7.0% in 2011 & 2010	Unsecured; no impairment
	2011	(281,621)	7,312,107		
	2010	1,593,728	7,593,728		
Receivable for project development	**2012**	**1,962,578**	**3,084,143**	Noninterest-bearing	Unsecured; no impairment
	2011	(88)	1,121,565		
	2010	172,358	1,121,653		

Compensation of Key Management Personnel of the Group

The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2012, 2011 and 2010 consist of short-term employee benefits amounting to ₱708.7 million, ₱644.3 million and ₱585.7 million, respectively, and post-employment benefits (pension benefits) amounting to ₱144.42 million, ₱99.5 million and ₱86.6 million, respectively.

22. **Cost of Sales**

This account consists of:

	2012	2011	2010
		(In Thousands)	
Merchandise inventories at beginning of year	**₱13,436,456**	₱10,485,903	₱7,760,762
Purchases	**117,862,994**	115,143,309	106,225,486
Total goods available for sale	**131,299,450**	125,629,212	113,986,248
Less merchandise inventories at end of year	**13,402,762**	13,436,456	10,485,903
	₱117,896,688	₱112,192,756	₱103,500,345

23. **Selling, General and Administrative Expenses**

This account consists of:

	2012	2011	2010
		(In Thousands)	
Personnel cost (see Note 21)	**₱10,942,505**	₱9,842,436	₱8,728,907
Depreciation and amortization (see Notes 13 and 14)	**8,057,871**	7,193,100	6,321,252
Utilities	**6,295,496**	5,346,665	4,577,600
Rent (see Note 27)	**4,876,327**	3,463,656	3,016,022
Taxes and licenses	**3,964,767**	3,212,041	2,740,926
Outside services	**2,802,479**	2,351,613	1,974,286
Commission expense	**2,084,339**	570,807	404,679
Advertising and promotions	**1,444,162**	1,802,823	1,215,989
Repairs and maintenance	**1,062,124**	958,955	899,266
Management fees (see Note 21)	**910,614**	944,098	725,212
Supplies	**838,943**	739,183	698,628
Insurance	**470,633**	357,743	356,054
Professional fees	**460,268**	199,378	206,447
Transportation and travel	**436,156**	341,716	287,649
Donations	**297,629**	201,533	31,835
Pension expense (see Note 25)	**235,499**	234,746	281,567
Entertainment, representation and amusement	**196,185**	239,943	287,665
Communications	**122,666**	104,357	92,602
Data processing	**98,472**	8,825	160,840
Provision for (reversal of) impairment loss and others (see Notes 9, 10, 11, 12 and 14)	**(2,635,569)**	553,386	557,536
Others	**2,017,256**	1,745,746	1,931,372
	₱44,978,822	₱40,412,750	₱35,496,334

24. **Interest Income and Interest Expense**

The details of the sources of interest income and interest expense follow:

	2012	2011	2010
		(In Thousands)	
Interest income on:			
Time deposits and short-term investments (see Note 7)	**₱2,080,949**	₱1,921,384	₱2,071,015
AFS investments and others (see Notes 8 and 11)	**853,249**	1,227,952	849,554
Cash in banks and temporary investments (see Note 6)	**1,439,218**	1,083,460	763,649
Investments held for trading (see Note 8)	**43,330**	41,844	32,234
	₱4,416,746	₱4,274,640	₱3,716,452
Interest expense on:			
Long-term debt (see Note 19)	**₱7,325,871**	₱6,249,515	₱7,177,322
Bank loans (see Note 17)	**3,253,656**	2,288,844	132,967
Others (see Note 29)	**232,209**	297,654	342,268
	₱10,811,736	₱8,836,013	₱7,652,557

25. **Pension Benefits**

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest appraisal valuation report is as at December 31, 2012.

The following tables summarize the components of net benefit expense recognized by Market Strategic Firm, Inc., Manduriao Star, Inc., Mindanao Shoppers Daily Destination Corp., Mindanao Shoppinglane Cebu Corp., CF_Mgt. Corp., LTBG_Mgmt. Corp., MCLG Mgmt. Corp., MF_Mgt Corp., Accessories Management Corp., and LF_Mgt. Corp. (subsidiaries of SM Retail); Manila Southcoast Development Corp. (subsidiary of Mt. Bliss); Forever Agape and Glory, Inc. and SM Hotels, as included in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (Included under "Selling, General and Administrative Expenses", see Note 23)

	2012	2011	2010
		(In Thousands)	
Current service cost	**₱30,196**	₱33,872	₱60,962
Interest cost	**14,789**	27,398	61,573
Expected return on plan assets	**(12,685)**	(24,820)	(27,501)
Recognized actuarial gain	**(1,280)**	(4,509)	(1,961)
Others	**1,497**	1,497	14,305
Net benefit expense	**₱32,517**	₱33,438	₱107,378

Defined Benefit Liability (Included under "Tenants' deposits and others")

	2012	2011
	(In Thousands)	
Present value of obligation	**₱276,936**	₱442,619
Fair value of plan assets	**302,376**	494,554
Funded status	**(25,440)**	(51,935)
Unrecognized actuarial gain	**60,513**	131,766
Others	**(6,763)**	(3,344)
Defined benefit liability	**₱28,310**	₱76,487

Changes in the Present Value of the Defined Benefit Obligation

	2012	2011	2010
		(In Thousands)	
Defined benefit obligation at beginning of year	**₱442,619**	₱695,108	₱922,784
Reclassifications to defined benefit assets	**(232,674)**	(352,155)	(386,635)
Interest cost	**14,789**	27,398	61,573
Current service cost	**30,196**	33,872	60,962
Actuarial loss on defined benefit obligations	**30,464**	47,023	23,505
Benefits paid	**(6,307)**	(13,696)	(22,581)
Transfer from related parties	**(2,151)**	2,778	17,504
Other adjustments	–	2,291	17,996
Defined benefit obligation at end of year	**₱276,936**	₱442,619	₱695,108

Changes in the Fair Value of Plan Assets

	2012	2011	2010
		(In Thousands)	
Fair value of plan assets at beginning of year	**₱494,554**	₱732,189	₱731,047
Reclassifications to defined benefit assets	**(253,032)**	(343,747)	(317,680)
Actual contributions	**28,169**	102,835	149,592
Actuarial gain on plan assets	**28,458**	10,104	146,806
Expected return on plan assets	**12,685**	24,820	27,501
Benefits paid	**(6,307)**	(13,696)	(22,581)
Transfer from related parties	**(2,151)**	2,778	17,504
Other adjustments	–	(20,729)	–
Fair value of plan assets at end of year	**₱302,376**	₱494,554	₱732,189

Unrecognized Actuarial Gain

	2012	2011	2010
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of year	**₱131,766**	₱219,047	₱157,729
Actuarial gain (loss) on:			
Plan assets	**28,458**	10,104	146,806
Defined benefit obligation	**(30,464)**	(47,023)	(23,505)
Reclassifications to defined benefit assets	**(67,967)**	(24,722)	(60,022)
Recognized actuarial gain	**(1,280)**	(4,509)	(1,961)
Other adjustments	–	(21,131)	–
Net cumulative unrecognized actuarial gain at end of year	**₱60,513**	₱131,766	₱219,047

The amounts for the current and previous four periods are as follows:

	2012	2011	2010	2009	2008
			(In Thousands)		
Present value of defined benefit obligation	**₱276,936**	₱442,619	₱695,108	₱922,784	₱643,307
Fair value of plan assets	**302,376**	494,554	732,189	731,047	571,629
Deficit (Surplus)	**(25,440)**	(51,935)	(37,081)	191,737	71,678
Experience adjustment arising on plan asset	**28,458**	10,104	146,806	108,771	(89,871)
Experience adjustment arising on plan liabilities	**30,464**	47,023	23,505	305,898	(765,951)

Certain subsidiaries have defined benefit assets as at December 31, 2012 and 2011. The following tables summarize the components of net benefit expense recognized by the Parent Company; SM Land; SM Prime; SMDC; SM Retail; Mainstream Business, Inc., Major Shopping Management Corporation, Metro Manila Star Asia Corporation, Meridien Business Leader, Inc., Madison Shopping Plaza, Inc., Multi Stores Corporation, Metro Manila Shopping Mecca Corp., Mercantile Stores Group, Inc., Mindanao Shopping Destination Corp., Manila Southern Associates, Inc., SM Mart, Inc., Sanford Marketing Corporation, SVI, SSMI, Accessories_Management Corp., LTBG_Management Corp., MF_Mgmt. Corp., Hyperhome Corp., Hyperfashion Corp. and MCLG_Mgmt. Corp., (subsidiaries of SM Retail); Costa; and Hotel Specialists (Tagaytay) Inc. and SMX Convention Specialist Corp. (subsidiaries of SM Hotels); and MRDC, as recognized in the consolidated statements of income, and the funded status and amounts as recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (Included under "Selling, General and Administrative Expenses", see Note 23)

	2012	2011	2010
		(In Thousands)	
Current service cost	**₱232,910**	₱206,172	₱150,541
Interest cost	**177,343**	150,945	148,216
Expected return on plan assets	**(186,269)**	(162,260)	(107,419)
Recognized actuarial loss (gain)	**(13,888)**	10,583	(27,508)
Effect of asset limit	**(2,860)**	1,435	4,409
Others	**(4,254)**	(5,567)	5,950
Net benefit expense	**₱202,982**	₱201,308	₱174,189

Defined Benefit Asset (Recorded as part of "Other Noncurrent Assets", see Note 16)

	2012	2011
	(In Thousands)	
Present value of obligation	**₱3,234,528**	₱2,269,976
Fair value of plan assets	**3,967,810**	2,994,978
Funded status	**(733,282)**	(725,002)
Unrecognized actuarial gain	**292,384**	321,952
Amount not recognized due to asset limit	**(7,404)**	12,797
Others	**(4,608)**	(4,460)
Defined benefit asset	**(₱452,910)**	(₱394,713)

Changes in the Present Value of the Defined Benefit Obligation

	2012	2011	2010
		(In Thousands)	
Defined benefit obligation at beginning of year	**₱2,269,976**	₱1,618,563	₱926,755
Reclassifications from defined benefit liability	**232,674**	352,155	386,635
Current service cost	**232,910**	206,172	150,541
Interest cost	**177,343**	150,945	148,216
Actuarial loss on defined benefit obligations	**366,834**	140,848	58,868
Benefits paid	**(68,621)**	(181,173)	(46,489)
Transfer to related parties	**(57,896)**	(12,590)	(14,063)
Other adjustments	**81,308**	(4,944)	8,100
Defined benefit obligation at end of year	**₱3,234,528**	₱2,269,976	₱1,618,563

Changes in the Fair Value of Plan Assets

	2012	2011	2010
		(In Thousands)	
Fair value of plan assets at beginning of year	**₱2,994,978**	₱2,437,705	₱1,306,847
Actual contributions	**313,700**	337,732	392,338
Actuarial gain on plan assets	**333,746**	56,398	373,973
Reclassifications from defined benefit liability	**253,031**	343,747	317,680
Expected return on plan assets	**186,269**	162,260	107,419
Benefits paid	**(68,621)**	(181,173)	(46,489)
Transfer to related parties	**(57,896)**	(12,590)	(14,063)
Other adjustments	**12,603**	(149,101)	–
Fair value of plan assets at end of year	**₱3,967,810**	₱2,994,978	₱2,437,705

Unrecognized Actuarial Gain

	2012	2011	2010
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of year	**₱321,952**	₱510,542	₱159,972
Actuarial gain (loss) on:			
Defined benefit obligation	**(366,834)**	(140,848)	(58,868)
Plan assets	**333,746**	56,398	373,973
Reclassifications from defined benefit liability	**67,968**	24,722	60,022
Recognized actuarial (gain) loss	**(13,888)**	10,583	(27,508)
Other adjustments	**(50,560)**	(139,445)	2,951
Net cumulative unrecognized actuarial gain at end of year	**₱292,384**	₱321,952	₱510,542

The amounts for the current and previous four periods follow:

	2012	2011	2010	2009	2008
			(In Thousands)		
Fair value of plan assets	**₱3,967,810**	₱2,994,978	₱2,437,705	₱1,306,847	₱743,477
Present value of defined benefit obligation	**3,234,528**	2,269,976	1,618,563	926,755	492,166
Surplus	**733,282**	725,002	819,142	380,092	251,311
Experience adjustment on plan asset	**333,746**	56,398	373,973	62,727	(82,300)
Experience adjustment on plan liabilities	**366,834**	140,848	58,868	143,281	(227,645)

The expected overall rate of return on assets is determined based on historical returns, applicable to the period over which obligation is to be settled. These are reflected in the principal assumptions below.

	2012	2011
Discount rate	**4%–7%**	5%–7%
Expected rate of return on assets	**5%–8%**	5%–7%
Future salary increases	**10%–11%**	10%

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by Board of Trustees of the Retirement Plan. The following table presents the carrying amounts and estimated fair values of the assets of the Plan:

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**₱171,751**	**₱171,751**	₱182,785	₱182,785
Investment in debt and other Securities	**450,728**	**450,728**	240,635	240,635
Investment in common trust funds	**1,736,086**	**1,736,086**	1,244,928	1,244,928
Investment in equity securities	**183,913**	**183,913**	173,693	173,693
Investment in government Securities	**1,692,804**	**1,692,804**	1,617,703	1,617,703
Others	**34,904**	**34,904**	29,788	29,788
	₱4,270,186	**₱4,270,186**	₱3,489,532	₱3,489,532

The Plans' assets and investments consist of the following:

- Cash and cash equivalents includes regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 5.45% to 8.46% and have maturities from April 2014 to September 2022;
- Investment in common trust funds consists of unit investment trust fund.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 5.00% to11.14% and have maturities from July 2013 to October 2037; and
- Other financial assets held by the Plan are primarily accrued interest income on cash deposits and debt securities held by the Plan.

As at and for the year ended December 31, 2012, the following table summarizes the outstanding balances and transactions of the Plan with the reporting entity and BDO Unibank, Inc., a related party:

	2012
	(In Thousands)
Cash and cash equivalents	₱171,151
Interest income from cash and cash equivalents	2,826
Investment in common trust funds	1,736,086
Gains from Investment in common trust funds	456,634
	₱2,366,697

The Group expects to contribute about ₱341.9 million to its defined benefit pension plan in 2013.

26. **Income tax**

The details of the Group's deferred tax assets and liabilities are as follows:

	2012	2011
	(In Thousands)	
Deferred tax assets - net:		
Unamortized past service cost and defined benefit liability	**₱100,129**	₱188,582
Unrealized foreign exchange loss and others	**362,005**	305,681
Accrued leases	**43,070**	105,585
MCIT	**79,253**	61,248
Unrealized marked-to-market loss on investments	**40,517**	36,708
Deferred income on sale of real estate	**–**	(12,823)
NOLCO	**17,131**	9,663
	₱642,105	₱694,644
Deferred tax liabilities - net:		
Trademarks and brand names	**₱1,837,429**	₱1,879,000
Capitalized interest	**1,276,303**	1,293,396
Unrealized foreign exchange gain	**791,671**	783,361
Unrealized gross profit on sale of real estate	**301,382**	366,982
Accrued/deferred rent income	**169,831**	88,842
Unrealized marked-to-market gain on investments	**45,723**	63,052
Unamortized past service cost and defined benefit asset	**54,905**	46,969
Others	**65,674**	(13,623)
	₱4,542,918	₱4,507,979

The Group's consolidated deferred tax assets as at December 31, 2012 and 2011 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertains to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

	2012	2011
	(In Thousands)	
Net unrealized foreign exchange loss	**₱2,011,810**	₱2,011,810
Allowance for impairment losses	**1,889,215**	1,889,215
NOLCO	**1,630,269**	–
Accretion on convertible bonds	**297,707**	296,428
MCIT	**122,669**	–
Non-refundable advance rentals	**66,456**	65,280
Past service cost	**36,672**	15,817
	₱6,054,798	₱4,278,550

NOLCO and MCIT applied as deduction from taxable income and income tax due amounted to nil in 2012, and ₱467.5 million and ₱155.6 million in 2011, respectively.

The following are the movements in NOLCO and MCIT:

	2012	2011
	(In Thousands)	
NOLCO:		
Balance at beginning of year	**₱–**	₱467,458,462
Additions	**1,630,269**	–
Applications	**–**	(467,458,462)
Balance at end of year	**₱1,630,269**	₱–
MCIT:		
Balance at beginning of year	**₱–**	₱155,551,401
Additions	**122,669**	–
Applications	**–**	(155,551,401)
Balance at end of year	**₱122,669**	₱–

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax is as follows:

	2012	2011	2010
Statutory income tax rate	**30%**	30%	30%
Add (deduct) income tax effects of reconciling items:			
Equity in net earnings of associates	**(7)**	(5)	(5)
Dividend income exempt from tax	**(1)**	(1)	(1)
Interest income subjected to final tax	**(3)**	(3)	(3)
Gain on sale of shares of stock	**–**	(3)	(2)
Others	**(3)**	(2)	(2)
Change in unrecognized deferred tax assets	**–**	(1)	1
Effective income tax rates	**16%**	15%	18%

27. **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 ₱11,691.8 million and ₱10,104.6 million as at December 31, 2012 and 2011, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at December 31 are as follows:

	2012	2011
	(In Thousands)	
Within one year	**₱738,122**	₱763,355
After one year but not more than five years	**2,230,084**	1,937,989
After five years	**5,512,218**	4,180,161
Balance at end of year	**₱8,480,424**	₱6,881,505

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

The minimum lease payables under the noncancellable operating leases of SM Prime as at December 31 are as follows:

	2012	2011
	(In Thousands)	
Within one year	**₱427,541**	₱425,473
After one year but not more than five years	**1,809,929**	1,767,203
After five years	**21,041,694**	21,511,962
Balance at end of year	**₱23,279,164**	₱23,704,638

SVI has finance leases for several computer equipment included under "Property and equipment" account. The leases provide options to SVI to purchase the computer equipment at the end of the lease terms.

SVI's obligation under finance lease ended on May 27, 2011. Total lease payments amounted to nil in 2012 and ₱3.6 million in 2011.

28. **Financial Risk Management Objectives and Policies**

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

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized in the following tables. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2012 and 2011:

	2012							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$381,042	$–	₱15,641,760	(₱127,984)	₱15,513,776
Interest rate	–	–	–	5.50%	–			
US$500 million fixed rate bonds	–	379,156	–	–	–	15,564,354	(89,610)	15,474,744
Interest rate	–	6.00%	–	–	–			
US$350 million fixed rate bonds	245,623	–	–	–	–	10,082,824	(17,119)	10,065,705
Interest rate	6.75%	–	–	–	–			
US$250 million convertible bonds	–	–	229,173	–	–	9,407,559	(183,247)	9,224,312
Interest rate	–	–	1.63%	–	–			
US$500 million Senior bonds	–	–	–	–	500,000	20,525,000	(215,069)	20,309,931
Interest rate	–	–	–	–	4.25%			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱2,078,500	₱78,500	₱10,078,500	₱8,077,400	₱6,650,100	26,963,000	(144,816)	26,818,184
Interest rate	5.86%-6.81%	5.86%-6.81%	5.86%-7.73%	5.86%-6.81%	5.86%-9.85%			
Five-year and seven-year retail bonds	–	8,400,000	–	1,000,000	–	9,400,000	(32,108)	9,367,892
Interest rate	–	8.25%	–	9.10%	–			
Seven-year and Ten-year retail bonds	–	–	–	–	14,282,270	14,282,270	(118,549)	14,163,721
Interest rate	–	–	–	–	6.00%-6.94%			
Five-year fixed rate notes	1,000	1,000	1,000	6,696,043	–	6,699,043	(36,984)	6,662,059
Interest rate	6.17%	6.17%	6.17%–	6.17%	–			
Five-year and ten-year corporate notes	–	–	–	–	1,100,000	1,100,000	(7,849)	1,092,151
Interest rate	–		–	–	10.11%			
Seven-year and ten-year corporate notes	5,000	5,000	5,000	10,000	4,970,000	4,995,000	(37,757)	4,957,243
Interest rate	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	1,097,300	66,145	756,555	1,960,000	(10,332)	1,949,668
Interest rate	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%	5.89%-6.65%	6.65%			
Other bank loans	8,750	1,380,500	1,339,300	1,200,000	2,050,000	5,978,550	(13,070)	5,965,480
Interest rate	6.75%	5.69%-6.75%	3.6%-7.28%	9.75%	6.71%-8.79%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$280,000	$–	11,494,000	(195,854)	11,298,146
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi loans	¥77,476	¥375,168	¥60,900	¥–	¥–	3,383,486	–	3,383,486

(Forward)

	2012							
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost**	**Carrying Amount**
				(In Thousands)				
Interest rate	5.76%-6.20%	5.76%-6.20%	5.76%		–			
US$ bilateral loans	$25,000	$–	$–	$–	$–	₱1,026,250	(₱5,008)	₱1,021,242
Interest rate	LIBOR+margin %	–	$–	–	–			
Other bank loans	$–	$–	$50,000	$–	$–	2,052,500	(15,572)	2,036,928
Interest rate	–	–	LIBOR+margin %	–	–			
Peso Loans:								
Peso loans collateralized with time deposits	–	–	3,000,000	–	–	3,000,000	(6,635)	2,993,365
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year, seven-year and ten-year corporate notes	30,000	30,000	2,880,000	–	–	2,940,000	(25,829)	2,914,171
Interest rate	PDST-F+margin%	–	PDST-F+margin%	–	–			
Five-year floating rate loan	96,500	96,500	96,500	8,360,500	950,000	9,600,000	(64,382)	9,535,618
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Five-year bilateral loans	–	–	–	500,000	–	500,000	(2,009)	497,991
Interest rate	–	–	–	PDST-F+margin%	–			
Other bank loans	30,000	5,180,000	4,955,000	3,000,000	–	13,165,000	(18,384)	13,146,616
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–			
						₱189,760,596	(₱1,368,167)	₱188,392,429

	2011							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$378,649	₱16,599,952	(₱160,739)	₱16,439,213
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	379,156	–	–	16,622,199	(146,602)	16,475,597
Interest rate	–	–	6.00%	–	–			
US$350 million fixed rate bonds	–	245,623	–	–	–	10,768,112	(49,831)	10,718,281
Interest rate	–	6.75%	–	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱990	₱2,000,990	₱990	₱9,194,060	₱800,000	11,997,030	(67,129)	11,929,901
Interest rate	9.60%	6.76%	9.60%	7.73%-9.60%	9.85%			
Five-year and seven-year retail bonds	–	–	8,400,000	1,000,000	–	9,400,000	(47,421)	9,352,579
Interest rate	–	–	8.25%	9.10%	–			
Five-year fixed rate notes	–	–	–	6,700,000	–	6,700,000	(49,708)	6,650,292
Interest rate	–	–	–	6.16%	–			
Five-year and ten-year corporate notes	5,550	–	5,550	2,978,850	1,100,000	4,089,950	(23,804)	4,066,146

(Forward)

	2011							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Interest rate	8.4%	–	8.4%	8.4%	10.11%			
Seven-year and ten-year corporate notes	–	–	–	–	5,000,000	₱5,000,000	(₱42,578)	₱4,957,422
Interest rate	–	–	–	–	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	20,000	1,105,960	814,040	1,980,000	(16,074)	1,963,926
Interest rate	5.79%-6.65%	–	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%			
Other bank loans	500	500	–	4,236,000	3,250,000	7,487,000	(19,660)	7,467,340
Interest rate	8.57%	8.57%	–	7%-8.57%	6.71%-9.75%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$145,000	$–	6,356,800	(255,267)	6,101,533
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi loans	¥40,000	¥–	¥501,382	¥60,900	¥–	4,176,648	–	4,176,648
Interest rate	5.32%-6.65%	–	5.32%-6.65%	5.32%-6.65%	–			
US$ bilateral loans	$–	$–	$25,000	$–	$–	1,096,000	(11,071)	1,084,929
Interest rate	–	–	LIBOR+margin %	–	–			
US$300 million convertible bonds	22,346	–	–	–	–	979,645	(8,256)	971,389
Interest rate	6.65%	–	–	–	–			
Other bank loans	$–	$20,000	$–	$50,000	$–	3,068,800	(38,021)	3,030,779
Interest rate	–	LIBOR+margin %	–	LIBOR+margin %	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱5,950,000	₱–	₱–	₱3,000,000	₱–	8,950,000	(15,070)	8,934,930
Interest rate	PDST-F+margin%	–	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	4,800,000	–	4,950,000	(29,755)	4,920,245
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year floating rate loan	50,000	–	50,000	100,000	4,800,000	5,000,000	(37,587)	4,962,413
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Redeemable preferred shares - Series 2	200,000	–	–	–	–	200,000	(131)	199,869
Interest rate	PDST-F+margin%	–	–	–	–			
Corporate notes	300	–	300	198,800	–	199,400	(653)	198,747
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year bilateral loans	46,875	–	–	–	500,000	546,875	(2,584)	544,291
Interest rate	PDST-F+margin%	–	–	–	PDST-F+margin%			
Other bank loans	10,000	–	5,010,000	6,245,000	–	11,265,000	(26,490)	11,238,510
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
						₱137,433,411	(₱1,048,431)	₱136,384,980

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

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, 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-upon notional amount. These swaps economically hedge the underlying debt obligations. As at December 31, 2012 and 2011, after taking into account the effect of interest rate swaps, approximately 64% and 56%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as at FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2012	**100**	**(₱437.2)**	**(₱133.5)**
	50	**(218.6)**	**(58.9)**
	(100)	**437.2**	**174.8**
	(50)	**218.6**	**95.2**
2011	100	(482.7)	(265.1)
	50	(241.3)	(174.2)
	(100)	482.7	112.5
	(50)	241.3	14.5

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign currency call options, non-deliverable forwards and foreign currency range options with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2012 and 2011:

	2012	
	US$	**PhP**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**$20,355**	**₱835,593**
Time deposits and short-term investments	**111,941**	**4,595,167**
AFS investments	**17,875**	**733,752**
Receivables	**334,142**	**13,716,529**
Noncurrent assets:		
AFS investments	**146,028**	**5,994,458**
Time deposits	**1,095,480**	**44,969,454**
Derivative assets	**2,679**	**109,973**
Other noncurrent assets	**24,151**	**991,431**
Total foreign currency-denominated financial assets	**1,752,651**	**71,946,357**
Current liabilities:		
Bank loans	**50,000**	**2,052,500**
Accounts payable and other current liabilities	**92,297**	**3,788,792**
Current portion of long-term debt	**245,623**	**10,082,824**
Noncurrent liabilities:		
Long-term debt - net of current portion	**1,762,239**	**72,339,915**
Derivative liabilities	**5,952**	**244,330**
Total foreign currency-denominated financial liabilities	**2,156,111**	**88,508,361**
Net foreign currency-denominated financial liabilities	**$403,460**	**₱16,562,004**

	2011	
	US$	PhP
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$11,636	₱510,101
Time deposits and short-term investments	24,999	1,095,974
Investments held for trading	5,175	226,872
Receivables	222,916	9,772,656
Noncurrent assets:		
AFS investments	133,237	5,841,108
Time deposits	853,480	37,416,563
Derivative assets	2,637	115,619
Total foreign currency-denominated financial assets	1,254,080	54,978,893
Current liabilities:		
Bank loans	88,000	3,857,920
Accounts payable and other current liabilities	19,024	834,001
Current portion of long-term debt	23,258	1,019,613
Noncurrent liabilities:		
Long-term debt - net of current portion	1,228,338	53,850,334
Derivative liabilities	7,262	318,359
Total foreign currency-denominated financial liabilities	1,365,882	59,880,227
Net foreign currency-denominated financial liabilities	$111,802	₱4,901,334

As at December 31, 2012 and 2011, approximately 39.5% and 36.4%, respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱565.1 million, ₱242.9 million and ₱407.2 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2012, 2011 and 2010, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2010	43.84
December 31, 2011	43.84
December 31, 2012	41.05

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments).

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax *(In Millions)*
2012	**1.50**	**₱605.2**
	1.00	**403.5**
	(1.50)	**(605.2)**
	(1.00)	**(403.5)**
2011	1.50	167.7
	1.00	111.8
	(1.50)	(167.7)
	(1.00)	(111.8)

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

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

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

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments-bonds and corporate notes amounting to ₱60,714.2 million, ₱29,090.3 million, ₱459.3 million and ₱1,734.0 million, respectively, as at December 31, 2012 and ₱56,050.3 million, ₱879.4 million, ₱457.5 million and ₱1,000.0 million, respectively, as at December 31, 2011 (see Notes 7, 8 and 9). The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2012 and 2011 based on the contractual undiscounted payments:

	2012				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱33,146,253**	**₱–**	**₱–**	**₱33,146,253**
Accounts payable and other current liabilities*	**–**	**55,531,106**	**–**	**–**	**55,531,106**
Long-term debt (including current portion)	**–**	**16,077,517**	**144,860,929**	**69,106,024**	**230,044,470**
Derivative liabilities:**					
Non-deliverable forward	**–**	**18,501**	**–**	**–**	**18,501**
Interest rate swaps	**–**	**–**	**244,330**	**–**	**244,330**
Foreign currency swap	**–**	**2,020**	**–**	**–**	**2,020**
Multiple derivatives on convertible bonds	**–**	**2,473,130**	**–**	**–**	**2,473,130**
Dividends payable	**–**	**97,282**	**–**	**–**	**97,282**
Tenants' deposits	**–**	**146,360**	**11,123,172**	**77,786**	**11,347,318**
	₱–	**₱107,492,169**	**₱156,228,431**	**₱69,183,810**	**₱332,904,410**

	2011				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱25,947,425	₱–	₱–	₱25,947,425
Accounts payable and other current liabilities*	–	43,323,757	–	–	43,323,757
Long-term debt (including current portion)	–	10,010,330	120,904,570	36,026,066	166,940,966
Derivative liabilities:**					
Non-deliverable forwards	–	–	43,842	–	43,842
Interest rate swaps	–	–	237,980	–	237,980
Multiple derivatives on convertible bonds	–	80,380	–	–	80,380
Dividends payable	–	25,696	–	–	25,696
Tenants' deposits	–	290,923	13,459,693	–	13,750,616
	₱–	₱79,678,511	₱134,646,085	₱36,026,066	₱250,350,662

* *Excluding payable to government agencies of ₱2,334.8 million and ₱1,426.2 million at December 31, 2012 and 2011, respectively, the amounts of which are not considered as financial liabilities.*
***Based on estimated future cash flows.*

Credit Risk

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

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

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

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

As at December 31, 2012 and 2011, 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. Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

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

As at December 31, 2012 and 2011, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	2012		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱59,646,460**	**₱–**	**₱59,646,460**
Time deposits and short-term investments (including noncurrent portion)	**58,523,185**	–	**58,523,185**
Investments held for trading - Bonds	**459,343**	–	**459,343**
AFS investments	**19,303,356**	**4,488**	**19,307,844**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**25,883,925**	**4,623,017**	**30,506,942**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**11,148,979**	–	**11,148,979**

(Forward)

	2012		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	**₱200,000**	**₱–**	**₱200,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**306,724**	**–**	**306,724**
Derivative assets	**128,480**	**–**	**128,480**
	₱175,600,452	**₱4,627,505**	**₱180,227,957**

	2011		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱54,991,002	₱–	₱54,991,002
Time deposits and short-term investments (including noncurrent portion)	38,295,972	–	38,295,972
Investments held for trading - Bonds	457,496	–	457,496
AFS investments	13,930,761	4,633	13,935,394
Receivables - net (including noncurrent portion of receivables from real estate buyers)	16,428,092	3,873,746	20,301,838
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	8,816,370	–	8,816,370
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,000,000	–	6,000,000
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	200,000	–	200,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	506,724	–	506,724
Derivative assets	159,461	–	159,461
	₱139,785,878	₱3,878,379	₱143,664,257

Equity Price Risk

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

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

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2012 and 2011) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2012	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+14.37%**	**₱1,950.50**
	-14.37%	**(1,950.50)**

	2011	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+17.58%	₱1,209.09
	-17.58%	(1,209.09)

<u>Capital Management</u>
Capital includes equity attributable to the owners of the Parent.

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

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

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

As at December 31, 2012 and 2011, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

	2012	2011
	(In Thousands)	
Bank loans	**₱31,793,975**	₱25,747,920
Current portion of long-term debt	**13,859,558**	7,920,961
Long-term debt - net of current portion and pledged time deposits	**174,532,871**	128,464,019
Less cash and cash equivalents, time deposits (net of pledged) and short-term investments, investments in held for trading bonds, AFS investments (bonds and corporate notes and redeemable preferred shares) and long-term notes included under "Other noncurrent assets" account	**(126,574,773)**	(100,803,702)
Total net interest-bearing debt (a)	**93,611,631**	61,329,198
Total equity attributable to owners of the Parent	**188,074,132**	157,666,331
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱281,685,763**	₱218,995,529
Gearing ratio (a/b)	33%	28%

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

	2012	2011
	(In Thousands)	
Bank loans	**₱31,793,975**	₱25,747,920
Current portion of long-term debt	**13,859,558**	7,920,961
Long-term debt - net of current portion and pledged time deposits	**174,532,871**	128,464,019
Total interest-bearing debt (a)	**220,186,404**	162,132,900
Total equity attributable to owners of the Parent	**188,074,132**	157,666,331
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱408,260,536**	₱319,799,231
Gearing ratio (a/b)	**54%**	51%

29. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31, 2012 and 2011:

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading -				
Bonds	**₱459,343**	**₱459,343**	₱457,496	₱457,496
Derivative assets	**128,480**	**128,480**	159,461	159,461
	587,823	**587,823**	616,957	616,957
Loans and receivables:				
Cash and cash equivalents	**60,714,720**	**60,714,720**	56,050,322	56,050,322
Time deposits and short-term investments (including noncurrent portion)	**58,523,185**	**62,048,610**	38,295,972	42,325,254
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**30,767,065**	**29,466,700**	20,504,264	19,517,334
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets)	**11,316,886**	**11,316,886**	8,816,370	8,816,370
Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheets)	**–**	**–**	6,000,000	6,292,484
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets)	**306,724**	**331,519**	506,724	523,977
	161,628,580	**163,878,435**	130,173,652	133,525,741
Held-to-Maturity -				
Treasury bonds (included under “Other current assets and other noncurrent assets” account in the consolidated balance sheets)	**200,000**	**225,695**	200,000	220,468
AFS Investments:				
Shares of stock	**11,618,836**	**11,618,836**	7,088,955	7,088,955
Bonds and corporate notes	**7,728,240**	**7,728,240**	6,841,109	6,841,109
Club shares	**5,900**	**5,900**	5,330	5,330
	19,352,976	**19,352,976**	13,935,394	13,935,394
	₱181,769,379	**₱184,044,929**	₱144,926,003	₱148,298,560
Financial Liabilities				
Financial Liabilities at FVPL -				
Derivative liabilities	**₱2,737,981**	**₱2,737,981**	₱362,202	₱362,202
Other Financial Liabilities:				
Bank loans	**31,793,975**	**31,793,975**	25,747,920	25,747,920
Accounts payable and other current liabilities*	**55,531,106**	**55,531,106**	43,323,577	43,323,577
Long-term debt (including current portion and net of unamortized debt issue cost)	**188,392,429**	**230,044,469**	136,384,980	150,553,342
Dividends payable	**97,282**	**97,282**	25,696	25,696
Tenants’ deposits and others	**14,500,317**	**14,976,358**	13,713,302	13,718,285
	290,315,109	**332,443,190**	219,195,475	233,368,820
	₱293,053,090	**₱335,181,171**	₱219,557,677	₱233,731,022

** Excluding payable to government agencies of ₱2,334.8 million and ₱1,426.2 million as at December 31, 2012 and 2011, respectively, the amounts of which are not considered financial liabilities.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are based on the quoted market prices of the instruments.

Cash and Cash Equivalents. The carrying amounts reported in the consolidated balance sheets approximate its fair value, due to its short-term nature.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 0.50%% to 6.55% and 1.13% to 1.65% as at December 31, 2012 and 2011, respectively.

Receivables and Advances and Other Receivables included under "*Other current assets*" *account.* The carrying values of short-term receivables approximate their fair values due to their short-term maturities. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of Group's accounts receivable. The discount rates used ranged from 5.5% to 8.0% and 8.0% to 10.0% as at December 31, 2012 and 2011, respectively.

Receivable from a Related Party and Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of receivable from a related party and long-term notes are based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 2.21% to 5.41% as at December 31, 2011. Discount rates used for long-term notes range is 7.5% and 2.21% to 5.41% as at December 31, 2012 and 2011, respectively.

Held-to-Maturity Investments. The fair value is based on quoted market prices of the investments at a rate of 112.85% and 110.23% as at December 31, 2012 and 2011, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used is 3.88% to 8.25% and 4.24% as at December 31, 2012 and 2011, respectively. For unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.52% to 9.10% and 2.60% to 6.48% as at December 31, 2012 and 2011, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.73% to 5.91% and 1.98% to 2.70% as at December 31, 2012 and 2011, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 0.50% to 5.91% and 2.97% to 3.67% as at December 31, 2012 and 2011, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the Parent Company's convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3 and redeemable preferred shares categorized as AFS investments under Level 2;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the Group's financial instruments carried at fair value as at December 31:

	2012		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	**₱459,343**	**₱–**	**₱–**
Derivative assets	–	**128,480**	–
	459,343	**128,480**	–
AFS investments:		–	–
Shares of stocks	**11,471,584**	–	**102,120**
Bonds and corporate notes	**7,728,240**	–	–
Club shares	**5,900**	–	–
	19,205,724	–	**102,120**
	₱19,665,067	**₱128,480**	**₱102,120**
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱264,851**	**₱2,473,130**

	2011		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	₱457,496	₱–	₱–
Derivative assets	–	159,461	–
	457,496	159,461	–
AFS investments:			
Shares of stocks	7,031,822	–	–
Bonds and corporate notes	6,841,109	–	–
Club shares	5,330	–	–
	13,878,261	–	–
	₱14,335,757	₱159,461	₱–
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	₱–	₱281,822	₱80,380

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instrument classified under Level 3 pertains to the derivative liability arising from the options in the Parent Company's convertible bonds. This was classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values.To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2012	**100 bps**	**(₱370,183)**
	(100) bps	**387,334**
2011	100 bps	(2,278)
	(100) bps	2,294

Derivative Financial Instruments

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

Derivative Assets

	2012	2011
	(In Thousands)	
Parent -		
Non-deliverable forwards	**₱18,501**	₱43,842
Subsidiary -		
Interest rate swaps	**109,979**	115,619
	₱128,480	₱159,461

Derivative Liabilities

	2012	2011
	(In Thousands)	
Parent -		
Non-deliverable forwards	**₱18,501**	₱43,842
Options arising from convertible bonds	**2,473,130**	80,380
Foreign currency swap	**2,020**	-
Subsidiary -		
Interest rate swaps	**244,330**	237,980
	₱2,737,981	₱362,202

Derivative liabilities of the Parent Company are included under "Accounts payable and other current liabilities" account in the consolidated balance sheets (see Note 18).

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

		2012	
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
		(Amounts in Thousands)	
Floating-Fixed			
Outstanding notional amount	**$145,000**	**$145,000**	**$145,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	**2.91%–3.28%**

(Forward)

	2012		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
		(Amounts in Thousands)	
Outstanding notional amount	**$30,000**	**$30,000**	**$30,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.53%**	**3.53%**	**3.53%**
Outstanding notional amount	**$20,000**	**$20,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.18%**	**3.18%**	
Outstanding notional amount	**$25,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**4.10%**		
Fixed-Floating			
Outstanding notional amount	**₱970,000**	**₱960,000**	**₱950,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱970,000**	**₱960,000**	**₱950,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	2011		
	<1 Year	>1-<2 Years	>2-<5 Years
		(Amounts in Thousands)	
Floating-Fixed			
Outstanding notional amount	$145,000	$145,000	$145,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	2.91%-3.28%	2.91%-3.28%	2.91%-3.28%
Outstanding notional amount	$50,000	$50,000	$50,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.18%-3.53%	3.18%-3.53%	3.18%-3.53%
Outstanding notional amount	$25,000	$25,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	4.10%	4.10%	
Outstanding notional amount	$20,000	$20,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.41%	3.41%	
Fixed-Floating			
Outstanding notional amount	₱980,000	₱970,000	₱960,000
Receive-floating rate	5.44%	5.44%	5.44%
Pay-fixed rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	980,000	970,000	960,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F +margin%	3MPDST-F +margin%	3MPDST-F +margin%

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

As at December 31, 2012 and 2011, all outstanding embedded derivatives have nil values.

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

Short equity call option pertains to the option of the bondholders to convert the bonds into SMIC's common shares prior to maturity. If a bondholder exercised its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares, and such option on the part of the Parent Company is a long call option.

<u>US$300.0 Million Convertible Bonds</u>
The Bonds are denominated in U.S. dollar while the currency of the underlying shares is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱48.37 per US$1. Considering the exposure of the Parent Company, the option was assessed as a short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bond at 110.79% of the principal amount on March 19, 2010.

As at December 31, 2012 and 2011, the fair value of these options, which is shown as a current liability in the consolidated balance sheets amounted to nil and ₱80.4 million, respectively. Net fair value change recognized by the Group in the 2012 consolidated statement of income includes ₱219.3 million option value that was transferred to "Additional paid-in capital" account in the consolidated balance sheets as a result of the exercise of the conversion option (see Note 20), ₱131.5 million mark-to-market loss on derivatives and ₱28.8 million gain arising from the expiry of options which are reflected under "Gain (loss) on fair value changes on derivatives - net"account in the consolidated statements of income. Net fair value change recognized by the Group in 2011 amounting to positive ₱36.3 million is also included under "Gain (loss) on fair value changes on derivatives - net".

<u>US$250.0 Million Convertible Bonds</u>
The Bonds are denominated in U.S. dollar while the currency of the underlying shares is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱42.71 per US$1. Considering the exposure of the Parent Company, the option was assessed as a short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bonds on February 15, 2015 at their Early Redemption Amount, together with accrued but unpaid interest.

As at December 31, 2012, the fair value of these options, which is shown as a current liability in the consolidated balance sheets, amounted to ₱2,473.1 million. At inception date, the negative fair value of these options amounted to ₱1,193.9 million. In 2012, the Group recognized a fair value change from these options amounting to ₱1,279.2 million loss which is recognized under "Gain (loss) on fair value changes on derivatives – net" account in the consolidated statements of income.

Interest Rate Swaps. In 2011, SM Prime entered into US$ interest rate swap agreements with notional amount of US$145 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swap has negative fair value of ₱157.9 million and ₱142.4 million, respectively.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swaps has negative fair value of ₱16.7 million and ₱14.8 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, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swap has a negative fair values of ₱47.7 million and ₱37.8 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 combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). As at December 31, 2012 and 2011, these swaps have positive fair values of ₱110.0 million and ₱115.6 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 19). On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4.0 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 19). As at December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱3.2 million. On January 13, 2012, the interest rate swap was preterminated as a result of prepayment of the underlying loan. Fair value changes from the preterminated swap recognized on the consolidated statements of income amounted to ₱1.1 million loss in 2012.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 19). SM Prime preterminated the US$30.0 million swap on November 30, 2010 and the US$90.0 million swap on May 16, 2011. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱9.0 million loss in 2011 ₱6.0 million gain in 2010. As at December 31, 2012 and 2011, the outstanding US$25 million floating to fixed interest rate swap has negative fair values of ₱22.1 million and ₱39.8 million, respectively.

In 2009, SM Prime entered into Philippine peso interest rate swap agreement with a notional amount of ₱750.0 million. Under these agreement, SM Prime effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 19). On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Negative fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱14.0 million in 2011.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 19). On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27.0 million loss in 2011.

Foreign Currency Options. In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As at December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

Foreign Currency Swap. In 2012, the Parent Company entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Parent Company recognized derivative liability with a corresponding negative on net fair value changes amounting to ₱2.0 million loss and ₱9.0 million gain from the outstanding and settled foreign currency swaps, respectively, as at December 31, 2012.

Non-deliverable Forwards. In 2012, 2011 and 2010, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Group recognized derivative asset and derivative liability amounting to ₱18.5 million and ₱43.8 million from the outstanding forward contracts as at December 31, 2012 and 2011, respectively. Net fair value changes from the settled forward contracts of the Group amounted to ₱87.7 million and ₱480.0 million gain, in 2012 and 2011, respectively.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as at December 31 are as follows:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**(₱202,741)**	(₱98,312)
Net change in fair value	**(2,304,958)**	(295,268)
Fair value of derivatives on settled contracts	**(101,802)**	190,839
Balance at end of year	**(₱2,609,501)**	(₱202,741)

In 2012, the net changes in fair value amounting to negative ₱2,305.0 million comprise of interest paid amounting to ₱26.8 million, which is included under "Interest expense" account in the consolidated statements of income, net marked-to-market loss on derivatives amounting to ₱1,403.4 million, which is included under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income, ₱1,193.7 million pertaining to the valuation of the option on convertible bond, ₱219.3 million transferred to "Additional paid-in capital" account in the consolidated balance sheets and ₱99.6 million gain recognized under "Foreign exchange gain – net".

In 2011, the net changes in fair value amounting to negative ₱295.3 million comprise of interest paid amounting to ₱22.0 million, which is included under "Interest expense" account in the consolidated statements of income, net marked-to-market gain on derivatives amounting to ₱366.2 million, which is included under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income and ₱639.5 million loss recognized under Other expenses.

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

	2012	2011
	(In Thousands)	
Derivative assets (see Notes 10 and 16)	**₱128,480**	₱159,461
Derivative liabilities (see Note 18)	**(2,737,981)**	(362,202)
Balance at end of year	**(₱2,609,501)**	(₱202,741)

30. EPS Computation

	2012	2011	2010
	(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)	**₱24,674,381**	₱21,224,592	₱18,440,169
Effect on net income of convertible bonds, net of tax	–	43,813	–
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱24,674,381**	₱21,268,405	₱18,440,169
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period (c)	**619,166**	612,038	611,218
Dilutive effect of convertible bonds	**12,146**	2,132	–
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**631,312**	614,170	611,218
Basic EPS (a/c)	**₱39.85**	₱34.68	₱30.17
Diluted EPS (b/d)	**₱39.08**	₱34.63	₱30.17

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱30.32 in 2010.

31. Reclassification

The comparative information in 2011 and 2010 consolidated statements of income has been reclassified to conform to the presentation of the financial statements for the period ended December 31, 2012.

32. Other Matters

In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a negotiated sale and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from DBP.

Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge, filed with the Regional Trial Court (RTC) of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of the mortgages of these properties. The Parent Company was impleaded as a party defendant in 1995. The RTC of Makati voided the foreclosure by the DBP on the mortgaged properties and declared the Parent Company a buyer in bad faith.

The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration with the Court of Appeals and on November 9, 2007, the Court of Appeals issued a resolution denying the appellees' Motion for Reconsideration. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC Makati. On December 23, 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on October 24, 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated June 21, 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court.

33. Events After the Reporting Period

a) At various dates in January 1 to March 6, 2013, the bondholders of US$19.4 million (₱796.4 million) opted to convert their holdings into 1,060,328 SMIC's shares. This resulted to an increase in capital stock and additional paid-in capital amouting to ₱10.6 million and ₱1,030.6 million, respectively, and a decrease in liability of ₱1,041.2 million.

b) On January 7, 2013, SM Prime and SM Retail have entered into a joint venture with Waltermart Mall Group of Companies (Waltermart). Waltermart is engaged in the business of shopping and supermarket businesses. Waltermart currently operates 17 shopping centers accross Metro Manila, North and South Luzon. As at March 6, 2013, the final terms and conditions of the joint venture are still subject to due diligence and discussion.