

# COVER SHEET

SEC Registration Number

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Company Name

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

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

|   |
|---|
| - |
|---|

Company's Telephone Number/s

|          |
|----------|
| 857-0100 |
|----------|

Mobile Number

|   |
|---|
| - |
|---|

No. of Stockholders

|       |
|-------|
| 1,250 |
|-------|

Annual Meeting  
Month/Day

|                |
|----------------|
| April 26, 2017 |
|----------------|

Fiscal Year  
Month/Day

|       |
|-------|
| 12/31 |
|-------|

## CONTACT PERSON INFORMATION

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

Name of Contact Person

|                 |
|-----------------|
| Mr. Jose T. Sio |
|-----------------|

Email Address

|   |
|---|
| - |
|---|

Telephone Number/s

|          |
|----------|
| 857-0100 |
|----------|

Mobile Number

|   |
|---|
| - |
|---|

Contact Person's Address

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

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



**Notice of Annual Stockholders' Meeting**  
**April 26, 2017 at 2:30 p.m.**  
**SMX Convention Center Manila, 2<sup>nd</sup> Floor, Function Room 3**  
**Seashell Drive, Mall of Asia Complex, Pasay City 1300**

To all Stockholders:

Please take notice that the 2017 annual stockholders' meeting of SM Investments Corporation will be held on April 26, 2017 at 2:30 p.m. at the Function Room 3, SMX Convention Center Manila, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City. The proposed agenda of the meeting is set forth below:

**A G E N D A**

1. Call to order
2. Certification of notice and quorum
3. Approval of minutes of annual meeting of stockholders held on April 27, 2016
4. Annual Report for the Year 2016 (Open Forum)
5. Ratification of the acts of the Board of Directors and the Management from the date of the last annual stockholders' meeting up to the date of this meeting
6. Election of directors for 2017 – 2018
7. Appointment of external auditors
8. Other Matters
9. Adjournment

Attached are the rationale for the above agenda items for reference.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 27, 2017 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you may accomplish the attached proxy form and submit the same to the office of the Corporate Secretary at the 33<sup>rd</sup> Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City 1600 at least seven (7) business days (or until April 17, 2017) before the date set for the annual meeting, as provided in the By-laws.

For your convenience in registering your attendance, please bring some form of identification, such as a passport, driver's license, or company I.D.

Pasig City, March 14, 2017.

**BY THE ORDER OF THE BOARD OF DIRECTORS**

  
**ELMER B. SERRANO**  
Corporate Secretary

**SM INVESTMENTS CORPORATION**

## **Rationale for Agenda Items:**

### **Agenda Item 3: To acknowledge and consider the Minutes of Annual Stockholders' Meeting held on April 27, 2016 for approval.**

The minutes of the ASM held on April 27, 2016 were made and submitted to the SEC within the period prescribed by pertinent laws, rules and regulation. The minutes were also posted on the Company's website. The Board of Directors recommends the stockholders to consider subject minutes for approval on April 26, 2017.

### **Agenda Item 4: To acknowledge and consider for approval the Annual Report of the Company for 2016.**

The Company's 2016 performance results have been duly summarized in the Annual Report which includes the Audited Financial Statements (AFS) of the Company for the year ended 2016. The AFS have been reviewed by the Audit Committee and the Board of Directors, and have been audited by the external auditors who expressed an unqualified opinion on the aforementioned financial statements. Any stockholder who would like to receive a hard copy or CD of the 2016 Annual Report may request for a copy from the Investor Relations Office.

### **Agenda Item 5: To acknowledge and ratify all the acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting to the date of this meeting.**

The Company's performance in 2016, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by Management in conformance with good corporate governance and ethical best practices.

### **Agenda Item 6: To elect the Board of Directors for 2017 to 2018**

Qualifications of the nominated Directors have been duly reviewed and based thereon, the nominated Directors are determined to be qualified and are being recommended by the Company's Corporate Governance Committee for election. Their proven competence, expertise and qualifications based on current regulatory standards and the Company's own norms, will help sustain the Company's solid performance for the benefit of all its stockholders.

### **Agenda Item 7: To consider and approve the Audit Committee's recommendation for the appointment of the external auditor.**

Based on the recommendation of the Audit Committee, the Board nominates SyCip Gorres Velayo & Co. (SGV & Co.) as the Company's external auditor for 2017. SGV & Co. is one of the top auditing firms in the country which is duly accredited with the Securities and Exchange Commission. The stockholders are also endorsed to delegate approval authority to the Board to approve the appropriate audit fee for 2016.

Pasig City, March 14, 2017.

(SAMPLE PROXY FORM FOR INDIVIDUALS)

**PROXY**

The undersigned stockholder of SM Investments Corporation (the "Company") hereby appoints \_\_\_\_\_ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote \_\_\_\_\_ shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 26, 2017 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous annual stockholders' meeting.  
\_\_\_ Yes \_\_\_ No \_\_\_ Abstain
2. Approval of 2016 Annual Report.  
\_\_\_ Yes \_\_\_ No \_\_\_ Abstain
3. Ratification of all acts and resolutions of the Board of Directors and Executive Officers.  
\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

4. Election of Directors.  
\_\_\_ a) Vote for all nominees listed below:

1. Teresita T. Sy
2. Henry T. Sy, Jr.
3. Harley T. Sy
4. Jose T. Sio
5. Joseph R. Higdon (Independent Director)
6. Tomasa H. Lipana (Independent Director)
7. Alfredo E. Pascual (Independent Director)
8. Frederic C. DyBuncio

\_\_\_ b) Withhold authority for all nominees listed above

\_\_\_ c) Withhold authority to vote for the nominees listed below:

|       |       |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

5. Election of SyCip Gorres Velayo & Co. as external auditor.  
\_\_\_ Yes \_\_\_ No \_\_\_ Abstain
6. At their discretion, the proxies named above are authorized to vote upon such other matters as may be properly come before the meeting.  
\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

\_\_\_\_\_  
Printed Name of Stockholder

\_\_\_\_\_  
Signature of Stockholder /  
Authorized Signatory

\_\_\_\_\_  
Date

(SAMPLE PROXY FORM FOR CORPORATIONS)

**SECRETARY'S CERTIFICATE**

I, \_\_\_\_\_, Filipino, of legal age and with office address at \_\_\_\_\_, do hereby certify that:

1. I am the duly appointed Corporate Secretary of \_\_\_\_\_ (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at \_\_\_\_\_;
2. As of record date, the Corporation holds \_\_\_\_\_ (\_\_\_\_\_) shares in SM Investments Corporation;
3. Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on \_\_\_\_\_, the following resolution was passed and approved:

"RESOLVED, That \_\_\_\_\_ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's proxy (the "Proxy") to attend all meetings of the stockholders of SM Investments Corporation (SMIC) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in SMIC and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.

"RESOLVED, FINALLY, That SMIC be furnished with a certified copy of this resolution and SMIC may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

4. The foregoing resolution has not been modified, amended or revoked in accordance with the records of the Corporation presently in my custody.

IN WITNESS WHEREOF, I have signed this instrument in \_\_\_\_\_ on \_\_\_\_\_.

\_\_\_\_\_  
Printed Name and Signature of the  
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on \_\_\_\_\_ in \_\_\_\_\_.  
Affiant exhibited to me his Competent Evidence of Identity by way of \_\_\_\_\_ issued on \_\_\_\_\_ at \_\_\_\_\_.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of \_\_\_\_\_.

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 17, 2017 (MONDAY)**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

## **PROFILE OF THE BOARD OF DIRECTORS**

|                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                     |
|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <div><b>HENRY SY, SR.</b><br/><i>Chairman of the Board</i></div> |                                                                                                                                                                                                                                                                                                                                                                                                                                                            |  |
| <b>EDUCATION/EXPERIENCE</b>                                      | 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 Emeritus of SM Prime, SM Development, Highlands Prime Inc., BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. Mr. Sy opened the first ShoeMart store in 1958 and such business has since evolved into a dynamic group of companies with interests in retail, banking, property and portfolio investments. |                                                                                     |
| <b>BOARD ATTENDANCE</b>                                          | 100%; 6 of 6 Meetings                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                     |
| <b>DATE OF FIRST APPOINTMENT</b>                                 | January 1960                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                     |
| <b>NO. OF YEARS ON THE BOARD</b>                                 | 56 years                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                     |
| <b>OTHER INFORMATION</b>                                         | No legal dispute in the past five (5) years;<br>No conflict of interest transactions in the past year.                                                                                                                                                                                                                                                                                                                                                     |                                                                                     |
| <b>POSITIONS IN OTHER REPORTING COMPANIES</b>                    | SM Prime Holdings, Inc.<br>BDO Unibank, Inc.<br>China Banking Corporation                                                                                                                                                                                                                                                                                                                                                                                  | Chairman Emeritus<br>Chairman Emeritus<br>Honorary Chairman                         |

|                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| <div><b>TERESITA T. SY</b><br/><i>Vice Chairperson of the Board</i></div> <div>Chairperson, Compensation Committee<br/>Chairperson, Executive Committee,<br/>Member, Audit Committee<br/>Member, Risk Management Committee<br/>Member, Related Party Transactions Committee</div> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| <b>EDUCATION/EXPERIENCE</b>                                                                                                                                                                                                                                                       | Teresita T. Sy is the Co-Vice Chairperson of SMIC. She likewise hold board positions in various subsidiaries and affiliates of SMIC. This includes BDO Unibank, Inc. where she is currently Chairperson, and SM Prime Holdings, Inc. where she acts as Adviser to the Board. She is likewise the Chairperson of SM Retail, Inc., which holds the SM Group’s interests in its retail businesses. She is a graduate of Assumption College. She brings to the board her vast experience in retail merchandising, mall development, and banking businesses. |                                                                                       |
| <b>BOARD ATTENDANCE</b>                                                                                                                                                                                                                                                           | 100%; 6 of 6 Meetings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                       |
| <b>DATE OF FIRST APPOINTMENT</b>                                                                                                                                                                                                                                                  | May 1979                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                       |
| <b>NO. OF YEARS ON THE BOARD</b>                                                                                                                                                                                                                                                  | 37 years                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                       |
| <b>OTHER INFORMATION</b>                                                                                                                                                                                                                                                          | No legal dispute in the past five (5) years;<br>No conflict of interest transactions in the past year.                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                       |
| <b>POSITIONS IN OTHER REPORTING COMPANIES</b>                                                                                                                                                                                                                                     | BDO Unibank, Inc.<br>SM Prime Holdings, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Chairperson<br>Adviser to the Board                                                   |

## **HENRY T. SY, JR.**

*Vice Chairman of the Board*



### **EDUCATION/EXPERIENCE**

Henry T. Sy, Jr. is the Co-Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. and Highlands Prime, Inc. He is also the Chairman and Chief Executive Officer of SM Development Corporation. 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 the De La Salle University.

### **BOARD ATTENDANCE**

100%; 6 of 6 Meetings

### **DATE OF FIRST**

### **APPOINTMENT**

May 1979

### **NO. OF YEARS ON THE BOARD**

37 years

### **OTHER INFORMATION**

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

### **POSITIONS IN OTHER REPORTING COMPANIES**

SM Prime Holdings, Inc.

Chairman

## **HARLEY T. SY**

*President*

Member, Executive Committee



### **EDUCATION/EXPERIENCE**

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 Co-Vice Chairman and Treasurer of the Retail Group of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the De La Salle University.

### **BOARD ATTENDANCE**

83.33%; 5 of 6 Meetings

### **DATE OF FIRST**

### **APPOINTMENT**

May 1993

### **NO. OF YEARS ON THE BOARD**

23 years

### **OTHER INFORMATION**

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

### **POSITIONS IN OTHER REPORTING COMPANIES**

China Banking Corporation

Director

## JOSE T. SIO

### *Director*

Member, Compensation Committee

Member, Executive Committee

Adviser, Audit Committee

Adviser, Risk Management Committee



#### EDUCATION/ EXPERIENCE

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, and Atlas Consolidated Mining and Development Corporation. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure 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. Mr. Sio was voted CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based business publications.

#### BOARD ATTENDANCE

100%; 6 of 6 Meetings

#### DATE OF FIRST APPOINTMENT

May 2005

#### NO. OF YEARS ON THE BOARD

12 years

#### OTHER INFORMATION

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

#### POSITIONS IN OTHER REPORTING COMPANIES

China Banking Corporation

Director

Belle Corporation

Director

Atlas Consolidated Mining and Development Corp.

Director

BDO Unibank, Inc.

Adviser to the Board

Premium Leisure Corporation

Adviser to the Board

## AH DOO LIM

### *Independent Director*

Chairman, Corporate Governance Committee

Chairman, Related Party Transactions Committee

Member, Audit Committee

Member, Risk Management Committee



#### EDUCATION/EXPERIENCE

Ah Doo Lim, a Singaporean, is an Independent Director of SMIC. He is currently Independent Chairman of Olam International, a global agri-business which operates in 70 countries and supplies to 16,200 customers worldwide with global leadership position in businesses such as cocoa, coffee, cashew, rice and cotton. He is also an Independent Director of ST Engineering Ltd., one of the largest companies listed on Singapore Exchange, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., GDS Holdings Limited. He is also an Independent Director of Sembcorp Marine Ltd., a world leading offshore rig builder. 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.

#### BOARD ATTENDANCE

100%; 6 of 6 Meetings

#### DATE OF FIRST APPOINTMENT

April 2008

#### NO. OF YEARS ON THE BOARD

9 years

#### OTHER INFORMATION

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

#### POSITIONS IN OTHER REPORTING COMPANIES

ST Engineering Ltd.

Independent Director

Sembcorp Marine Ltd.

Independent Director

GP Industries Ltd.

Independent Director

Bracell Limited

Independent Director

ARA-CWT Trust Management (Cache) Ltd.

Independent Director

## JOSEPH R. HIGDON

### *Independent Director*

Chairman, Risk Management Committee

Member, Compensation Committee

Member, Corporate Governance Committee

Member, Related Party Transactions Committee



#### EDUCATION/EXPERIENCE

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. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

#### BOARD ATTENDANCE

100%; 6 of 6 Meetings

#### DATE OF FIRST APPOINTMENT

April 2010

#### NO. OF YEARS ON THE BOARD

7 years

#### OTHER INFORMATION

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

#### POSITIONS IN OTHER REPORTING COMPANIES

International Container Terminal Services, Inc.

Independent Director

Security Bank Corporation

Independent Director

Philippine Equity Partners, Inc.

Independent Director

## TOMASA H. LIPANA

### *Independent Director*

Chairperson, Audit Committee

Member, Corporate Governance Committee



#### EDUCATION/EXPERIENCE

Tomas H. Lipana is an Independent Director of SMIC. She is a former Chairman and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, Goldilocks Bakeshop, Inc., PhilExim/Trade and Development Corporation, and QBE Seaboard Insurance, Philippines, Inc. She is also a Trustee of the Canadian Chamber of Commerce of the Philippines, Shareholders' Association of the Philippines, and Sikat Solar Challenge Foundation, Inc. She is a fellow of the Institute of Corporate Directors. Mrs. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received the Outstanding CPA in Public Practice Award from the Philippine Institute of Certified Public Accountants and Distinguished Alumna Award from the University of the East where she graduated Cum Laude. She was also a CPA Board placer.

#### BOARD ATTENDANCE

100%; 6 of 6 Meetings

#### DATE OF FIRST APPOINTMENT

April 2016

#### NO. OF YEARS ON THE BOARD

1 year

#### OTHER INFORMATION

No legal dispute in the past five (5) years;

No conflict of interest transactions in the past year.

#### POSITIONS IN OTHER REPORTING COMPANIES

No directorship in listed companies.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

☐ Preliminary Information Statement

☒ Definitive Information Statement

2. Name of Registrant as specified in its charter: **SM INVESTMENTS CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**

4. SEC Identification Number: **0000016342**

5. BIR Tax Identification Code: **000-169-020-000**

6. Address of principal office: **10<sup>th</sup> Floor, OneE-com Center, Harbor Drive, Mall of Asia  
Complex, Pasay City  
Postal Code 1300**

7. Registrant's telephone number, including area code: **(632) 857-0100 / fax (632) 857-0132**

8. Date, time and place of the meeting of security holders: **April 26, 2017, 2:30 p.m.  
2<sup>nd</sup> Floor, Function Room 3,  
SMX Convention Center Manila,  
Seashell Drive, Mall of Asia  
Complex, Pasay City 1300**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **March 28, 2017**

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

| Title of Each Class  | Number of Shares of Common Stock<br>Outstanding or Amount of Debt Outstanding |
|----------------------|-------------------------------------------------------------------------------|
| <b>Common shares</b> | <b>1,204,582,867</b>                                                          |

11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes ☒ No ☐

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:  
**Philippine Stock Exchange**

|               |
|---------------|
| <b>PART I</b> |
|---------------|

**INFORMATION REQUIRED IN INFORMATION STATEMENT**

**A. BUSINESS AND GENERAL INFORMATION**

**ITEM 1. Date, Time and Place of Meeting of Security Holders**

- (a) Date : April 26, 2017
- Time : 2:30 p.m.
- Place : 2<sup>nd</sup> Floor, Function Room 3  
SMX Convention Center Manila, Seashell Drive,  
Mall of Asia Complex, Pasay City 1300
- Mailing : **SM Investments Corporation**  
Address 10<sup>th</sup> floor, One E-Com Center  
of Registrant Harbor Drive, Mall of Asia Complex  
Pasay City 1300

- (b) The approximate date on which the Information Statement will be sent or given to the stockholders is on March 28, 2017.

**Statement that proxies are not solicited**

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND A PROXY.**

**Voting Securities**

The record date for purposes of determining the stockholders entitled to vote is March 27, 2017. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

**ITEM 2. Dissenters' Right of Appraisal**

SM Investments Corporation (SMIC or the "Company") respects the inherent rights of stockholders under the law. SMIC recognizes that all stockholders should be treated fairly and equally whether they be controlling, majority or minority, local or foreign.

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- (c) In case of merger or consolidation.

Procedure:

The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

- (a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.
- (b) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;
- (c) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
- (d) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

No matter will be presented for stockholders' approval during the stockholders' meeting that may occasion the exercise of the right of appraisal.

**ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.
- (b) No director of the Company has informed in writing that he intends to oppose any action to be taken by the Company at the meeting.

**B. CONTROL AND COMPENSATION INFORMATION**

**ITEM 4. Voting Securities and Principal Holders Thereof**

**(a) Voting Securities**

As of February 28, 2017, the total number of common shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Out of the aforesaid outstanding common shares, 391,089,000 shares or 32.47% are held by foreigners. Each share is entitled to notice of and to one vote at the Annual Stockholders' Meeting.

**(b) Record Date**

The record date for purposes of determining the stockholders entitled to notice and to vote is March 27, 2017.

**(c) Voting Rights**

Stockholders shall be entitled to vote in person or by proxy and, unless otherwise provided by law, he shall have one vote for each share of stock entitled to vote and recorded in his name in the books of the Corporation. At all meetings of the stockholders, all elections and all questions shall be decided by the plurality of vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present, except in cases where other provision is made statute. Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by proxy if there be by proxy, and shall state the number of shares voted by him.

Provided however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 24 of the Corporation Code of the Philippines.

**(d) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2017**

As of February 28, 2017, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

| <b>Title of Class</b> | <b>Name and Address of Record Owner and Relationship with Issuer</b>                                        | <b>Name of Beneficial Owner and Relationship with Record Owner</b> | <b>Citizenship</b> | <b>No. of Shares Held</b> | <b>Percent ( % )</b> |
|-----------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------|---------------------------|----------------------|
| Common                | Teresita T. Sy<br>(Director and Vice Chairperson)<br>No. 63 Cambridge Circle,<br>Forbes Park, Makati City   | Same as the Record Owner                                           | Filipino           | 85,628,175                | 7.11%                |
| -do-                  | Harley T. Sy<br>(Director and President)<br>No. 63 Cambridge Circle,<br>Forbes Park, Makati City            | Same as the Record Owner                                           | Filipino           | 87,792,438                | 7.29%                |
| -do-                  | Henry T. Sy, Jr.<br>(Director and Vice Chairperson)<br>No. 63 Cambridge Circle,<br>Forbes Park, Makati City | Same as the Record Owner                                           | Filipino           | 87,690,675                | 7.28%                |
| -do-                  | Hans T. Sy<br>(Stockholder of Issuer)<br>No. 11 Harvard Road,<br>Forbes Park, Makati City                   | Same as the Record Owner                                           | Filipino           | 98,956,803                | 8.22%                |
| -do-                  | Herbert T. Sy<br>(Stockholder of Issuer)<br>No. 63 Cambridge Circle,<br>Forbes Park, Makati City            | Same as the Record Owner                                           | Filipino           | 98,940,675                | 8.21%                |
| -do-                  | Elizabeth T. Sy<br>(Stockholder of Issuer)<br>No. 63 Cambridge Circle,<br>Forbes Park, Makati City          | Same as the Record Owner                                           | Filipino           | 70,084,482                | 5.82%                |
| -do-                  | PCD Nominee Corp.<br>(Filipino)                                                                             | Various clients <sup>1</sup>                                       | Filipino           | 107,063,815               | 8.89%                |
| -do-                  | PCD Nominee Corp. (Non-Filipino)                                                                            | Various clients <sup>1</sup>                                       | Foreign            | 390,914,434               | 32.45%               |

(1) The Company 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 of February 28, 2017**

| <b>Title of Securities</b> | <b>Name of Beneficial Owner of Common Stock</b> | <b>Amount and Nature of Beneficial Ownership (D) direct / (I) indirect</b> | <b>Citizenship</b> | <b>Percent of Class</b> |
|----------------------------|-------------------------------------------------|----------------------------------------------------------------------------|--------------------|-------------------------|
| Common                     | Henry Sy, Sr.                                   | P 47,738,250 D                                                             | Filipino           | 0.40%                   |
| Common                     | Teresita T. Sy                                  | 856,281,750 D                                                              | Filipino           | 7.11%                   |
| Common                     | Harley T. Sy                                    | 877,924,380 D                                                              | Filipino           | 7.29%                   |
| Common                     | Henry T. Sy, Jr.                                | 876,906,750 D                                                              | Filipino           | 7.28%                   |
| Common                     | Jose T. Sio                                     | 210 D                                                                      | Filipino           | 0.00%                   |
| Common                     | Tomasa H. Lipana                                | 1,500 D                                                                    | Filipino           | 0.00%                   |
| Common                     | Ah Doo Lim                                      | 1,870 D                                                                    | Singaporean        | 0.00%                   |
| Common                     | Joseph R. Higdon                                | 1,870 D                                                                    | American           | 0.00%                   |
| Common                     | Grace F. Roque                                  | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Marianne Malate-Guerrero                        | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Elizabeth Anne C. Uychaco                       | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Franklin C. Gomez                               | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Cecilia Reyes-Patricio                          | 1,300                                                                      | Filipino           | 0.00%                   |
| Common                     | Corazon P. Guidote                              | 31,870 D                                                                   | Filipino           | 0.00%                   |
| Common                     | Frederic C. DyBuncio                            | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Wilson H. Go                                    | 2,430                                                                      | Filipino           | 0.00%                   |
| Common                     | Marcelo C. Fernando, Jr.                        | 0                                                                          | Filipino           | 0.00%                   |
| Common                     | Elmer B. Serrano                                | 0                                                                          | Filipino           | 0.00%                   |
|                            |                                                 | P2,658,892,180                                                             |                    | 22.08%                  |

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

**(e) Change in Control**

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

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

**ITEM 5. Directors and Executive Officers of the Registrant**

**(a) The incumbent Directors and Executive Officers of the Company are as follows:**

| <b><u>Office</u></b>                                          | <b><u>Name</u></b>   | <b><u>Age</u></b> | <b><u>Citizenship</u></b> |
|---------------------------------------------------------------|----------------------|-------------------|---------------------------|
| Chairman                                                      | Henry Sy, Sr.        | 92                | Filipino                  |
| Vice Chairperson                                              | Teresita T. Sy       | 66                | Filipino                  |
| Vice Chairman                                                 | Henry T. Sy, Jr.     | 63                | Filipino                  |
| Director and President                                        | Harley T. Sy         | 57                | Filipino                  |
| Director and Executive Vice President & Chief Finance Officer | Jose T. Sio          | 77                | Filipino                  |
| Independent Director                                          | Ah Doo Lim           | 67                | Singaporean               |
| Independent Director                                          | Joseph R. Higdon     | 75                | American                  |
| Independent Director                                          | Tomasa H. Lipana     | 68                | Filipino                  |
| Treasurer and Senior Vice President                           | Grace F. Roque       | 66                | Filipino                  |
| Executive Vice President                                      | Frederic C. DyBuncio | 57                | Filipino                  |

| <u>Office</u>                                             | <u>Name</u>               | <u>Age</u> | <u>Citizenship</u> |
|-----------------------------------------------------------|---------------------------|------------|--------------------|
| Senior Vice President - Legal and Asst. Corp. Secretary   | Marianne Malate-Guerrero  | 52         | Filipino           |
| Senior Vice President - Corporate Services                | Elizabeth Anne C. Uychaco | 61         | Filipino           |
| Senior Vice President - Finance/Acting Chief Risk Officer | Franklin C. Gomez         | 47         | Filipino           |
| Senior Vice President – Corporate Tax Services            | Cecilia Reyes-Patricio    | 59         | Filipino           |
| Senior Vice President - Investor Relations                | Corazon P. Guidote        | 56         | Filipino           |
| Senior Vice President - Information Technology            | Wilson H. Go              | 54         | Filipino           |
| Senior Vice President - Group Treasury                    | Marcelo C. Fernando, Jr.  | 56         | Filipino           |
| Corporate Secretary                                       | Elmer B. Serrano          | 49         | Filipino           |
| Compliance Officer                                        | Corazon I. Morando        | 75         | Filipino           |

## **MANAGEMENT**

### **Board of Directors**

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified.

The following are the business experience/s of the Company's incumbent Directors 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 Emeritus of SM Prime Holdings, Inc., SM Development Corporation, Highlands Prime Inc., BDO Unibank, Inc., and Honorary Chairman of China Banking Corporation. 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.

**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 Chairperson 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 and Chairman of SM Prime Holdings, Inc., and Highlands Prime, Inc. He is also the Chairman and Chief Executive Officer of SM Development Corporation. 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 the 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 Co-Vice Chairman and Treasurer of the Retail Group of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the 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, and Atlas Consolidated Mining and Development Corporation. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure 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.

**Ah Doo Lim,\*** a Singaporean, is an Independent Director of SMIC. He is currently Independent Chairman of Olam International, a global agri-business which operates in 70 countries and supplies to 16,200 customers worldwide with global leadership position in businesses such as cocoa, coffee, cashew, rice and cotton. He is also an Independent Director of ST Engineering Ltd., one of the largest companies listed on Singapore Exchange, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., GDS Holdings Limited. He is also an Independent Director of Sembcorp Marine Ltd., a world leading offshore rig builder. 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. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

**Tomasa H. Lipana\*** is an Independent Director of SMIC. She is a former Chairman and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, Goldilocks Bakeshop, Inc., PhilExim/Trade and Development Corporation, and QBE Seaboard Insurance, Philippines, Inc. She is also a Trustee of the Canadian Chamber of Commerce of the Philippines, Shareholders' Association of the Philippines, and Sikat Solar Challenge Foundation, Inc. She is a fellow of the Institute of Corporate Directors. Mrs. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management.

*\* Independent director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

#### Period of Directorship

| <u>Name</u>      | <u>Period Served</u> |
|------------------|----------------------|
| Henry Sy, Sr.    | 1960 to present      |
| Teresita T. Sy   | 1979 to present      |
| Henry T. Sy, Jr. | 1979 to present      |
| Harley T. Sy     | 1993 to present      |
| Jose T. Sio      | 2005 to present      |
| Ah Doo Lim       | 2008 to present      |
| Joseph R. Higdon | 2010 to present      |
| Tomasa H. Lipana | 2016 to present      |

### Directorships in Other Reporting Companies

The following are directorships held by Directors in other reporting companies during the last five years:

| <u>Name of Director</u> | <u>Name of Reporting Company</u>                      | <u>Position Held</u> |
|-------------------------|-------------------------------------------------------|----------------------|
| Teresita T. Sy          | BDO Unibank, Inc.                                     | Chairperson          |
| Henry T. Sy, Jr.        | SM Prime Holdings, Inc.                               | Chairman             |
| Harley T. Sy            | China Banking Corporation                             | Director             |
| Jose T. Sio             | China Banking Corporation                             | Director             |
|                         | Belle Corporation                                     | Director             |
|                         | Atlas Consolidated Mining and Development Corporation | Director             |
| Ah Doo Lim              | ST Engineering Ltd.                                   | Independent Director |
|                         | Sembcorp Marine Ltd.                                  | Independent Director |
|                         | GP Industries Ltd.                                    | Independent Director |
|                         | Bracell Limited                                       | Independent Director |
|                         | ARA-CWT Trust Management (Cache) Ltd.                 | Independent Director |
| Joseph R. Higdon        | International Container Terminal Services, Inc.       | Independent Director |
|                         | Security Bank Corporation                             | Independent Director |
|                         | Philippine Equity Partners, Inc.                      | Independent Director |

The following are the business experience/s of the members of the Board during the last five years:

**Elmer B. Serrano** is the Corporate Secretary of SMIC and Corporate Secretary of SM Prime Holdings, Inc. since November 2014. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. He is also the Corporate Secretary of Premium Leisure Corporation, Premium Leisure Amusement Incorporation, Crown Equities, Inc., and Corporation Secretary of subsidiaries of BDO Unibank, Inc. namely, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

**Marianne Malate-Guerrero** is Senior Vice President, Legal Department Head and Assistant Corporate Secretary of SMIC. She is also Assistant Corporate Secretary of SM Prime Holdings, Inc. 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.

### Period of Membership

| <u>Name</u>              | <u>Office</u>                                                   | <u>Period Served</u> |
|--------------------------|-----------------------------------------------------------------|----------------------|
| Elmer B. Serrano         | Corporate Secretary                                             | 2014 to present      |
| Marianne Malate-Guerrero | Senior Vice President - Legal and Assistant Corporate Secretary | 2014 to present      |

### Nomination of Directors

The Corporate Governance Committee created by the Board under its Corporate Governance Manual has reviewed the credentials of, and qualified the following for election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

1. Teresita T. Sy
2. Henry T. Sy, Jr.
3. Harley T. Sy
4. Jose T. Sio
5. Joseph R. Higdon (Independent Director)
6. Tomasa H. Lipana (Independent Director)
7. Alfredo E. Pascual (Independent Director)
8. Frederic C. DyBuncio (new)

### Recognition to be given to founder Henry Sy, Sr.

The Board has agreed to take up at its next regular meeting scheduled on April 26, 2017, the creation of a Chairman Emeritus position and the appointment of Mr. Henry Sy, Sr. as such Chairman Emeritus. The appointment shall be in recognition of his role as founder of the SM group of companies.

### New Director Nominee

The Corporate Governance Committee reviewed the credentials of, and qualified for election as member of the Board, the Company's Executive Vice President, Frederic C. DyBuncio whose credentials are as follows:

**Frederic C. DyBuncio**, Filipino, 57 years of age, is the Company's Executive Vice President. 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.

### Directorships in Other Reporting Companies

The following are directorships held by Mr. Frederic C. DyBuncio in other reporting companies during the last five years:

| <u>Name of Reporting Company</u>                      | <u>Position Held</u>   |
|-------------------------------------------------------|------------------------|
| Atlas Consolidated Mining and Development Corporation | Vice Chairman          |
| Premium Leisure Corp.                                 | President/CEO/Director |
| Pacific Online Systems Corporation                    | Director               |

Tony Ong King nominated to the Board, for inclusion in the Final List of Candidates for Independent Director, the following stockholders:

1. Joseph R. Higdon
2. Tomasa H. Lipana
3. Alfredo E. Pascual (new)

Tony Ong King, Joseph R. Higdon, Tomasa H. Lipana, and Alfredo E. Pascual are not related either by consanguinity or affinity, nor has any other professional / business dealings with each other.

#### New Independent Director

The business experience of Mr. Alfredo E. Pascual, who has been nominated and qualified by the Corporate Governance Committee for election as new Independent Director of the Company is as follows:

**Alfredo E. Pascual**, Filipino, 68 years of age, has just finished his six-year term as President of the University of the Philippines (UP). Prior to his involvement in the academe, he worked at the Asian Development Bank (ADB) for nineteen (19) years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. Previous to that, Mr. Pascual held senior executive positions in investment banking companies, such as First Metro Investment Corporation. He likewise took on an educator role as finance professor at the Asian Institute of Management (AIM) for nine (9) years in the 1980's.

The Company has complied with the Guidelines set forth by SRC Rule 38 regarding the Nomination and Election of Independent Director. The same provision has been incorporated in the Amended By-Laws of the Company last April 27, 2006.

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified. The abovementioned nominated persons will be presented to the Company's shareholders for election at the annual stockholders' meeting. The nominated individuals possess all the qualifications and none of the disqualifications provided in the SRC and its Implementing Rules and Regulations. Further, no director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Annual Shareholders' Meeting because of a disagreement with the Company on any matter relating to its operations, policies or practices.

The procedure for nomination of directors shall be as follows:

- Nomination of all directors shall be reviewed and qualified by the Corporate Governance Committee prior to the stockholders' meeting.
- The Corporate Governance Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of Independent Directors and which list shall contain all the information about these nominees.
- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
- In case of resignation, disqualification or cessation of Independent Directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the

nomination of the Corporate Governance Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

- The Corporate Governance Committee is composed of the following members, all of whom are Independent Directors:
  1. Joseph R. Higdon - Chairman (Independent director)
  2. Tomasa H. Lipana - Member (Independent director)
  3. Ah Doo Lim - Member (Independent director)

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

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

### **Officers**

**Grace F. Roque** is the Treasurer of SMIC. She is also the Director of Metro Manila Shopping Mecca and of Mercantile Stores Group, Inc. She is also the Treasurer and Director of HFS Corporation, Mindanao Shoppers Daily Destination Corp., and SM Arena Complex Corp. She holds a Bachelor Degree in Economics from Maryknoll College and a Master's in Business Administration Degree from the University of the Philippines.

**Elizabeth Anne C. Uychaco** is Senior Vice President, Corporate Services of SMIC. She is also the Vice Chairperson and Board Director of Belle Corporation, Republic Glass Holdings Corp., and Generali Pilipinas Holding Company, 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 the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

**Franklin C. Gomez** is Senior Vice President for Finance of SMIC and the Acting Chief Risk Officer. Prior to joining SMIC in 2013, he 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 Chief Financial Officer 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 Bachelor of Science in Commerce Major in Accountancy from De La Salle University, Manila.

**Cecilia Reyes-Patricio** is the Senior Vice President, Corporate Tax Services 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.

**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's degree in Applied Business Economics 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.

**Wilson H. Go** is Senior Vice President of Information Technology of SMIC. He is also the President of LearningLitz, Inc. and of the Blue Genes. Prior to joining the company, Mr. Go held numerous senior level positions with IBM, which expanse a period of 30 years. His past designations include Country Manager – Global Technology Services, ASEAN Corporate Development Executive, and Asia Pacific Intellectual Property Licensing Business Development Executive, to name a few. Mr. Go holds a master's degree in Business Economics from the University of Asia and the Pacific and a Bachelor's degree in Commerce, Major in Accounting from De La Salle University, and is also a Certified Public Accountant.

**Marcelo C. Fernando, Jr.** is Senior Vice President for Group Treasury of SMIC. Prior to joining the company, he spent a combined 31 years in the banking industry, 29 of them with Citibank, N.A. His banking experience was mainly in the Markets business which was involved in the sales, trading and structuring of currencies, fixed income, money markets and commodities products and their derivatives. He was also responsible for liquidity management and balance sheet funding and gapping activities as Country Treasurer in the Philippines and during his posting in Thailand. Mr. Fernando also had regional responsibilities as Citibank's Markets Head for the ASEAN cluster which covered Indonesia, Malaysia, Philippines, Thailand and Vietnam. He obtained his Bachelor of Arts degree in Economics from the University of the Philippines, Diliman (Cum Laude), and graduated with Distinction from the Masters in Business Management program of the Asian Institute of Management.

#### Period of Officership

| <u>Name</u>               | <u>Office</u>                                         | <u>Period Served</u> |
|---------------------------|-------------------------------------------------------|----------------------|
| Harley T. Sy              | President                                             | 2005 to present      |
| Jose T. Sio               | Executive Vice President<br>and Chief Finance Officer | 2005 to present      |
| Frederic C. DyBuncio      | Executive Vice President                              | 2011 to present      |
| Grace F. Roque            | Treasurer and Senior Vice President                   | 2010 to present      |
| Marianne Malate-Guerrero  | Senior Vice President - Legal                         | 2006 to present      |
| Elizabeth Anne C. Uychaco | Senior Vice President - Corporate<br>Services         | 2009 to present      |
| Franklin C. Gomez         | Senior Vice President - Finance                       | 2013 to present      |
| Cecilia Reyes-Patricio    | Senior Vice President - Corporate<br>Tax Services     | 2010 to present      |
| Corazon P. Guidote        | Senior Vice President - Investor<br>Relations         | 2006 to present      |
| Wilson H. Go              | Senior Vice President - Information<br>Technology     | 2015 to present      |
| Marcelo C. Fernando, Jr.  | Senior Vice President - Group<br>Treasury             | 2015 to present      |

Directorships in Other Reporting Companies

The following are directorships held by an Officer in other reporting companies during the last five years:

| <u>Name of Director</u>   | <u>Name of Reporting Company</u> | <u>Position Held</u>      |
|---------------------------|----------------------------------|---------------------------|
| Elizabeth Anne C. Uychaco | Belle Corporation                | Vice Chairperson/Director |
|                           | Republic Glass Holdings Corp.    | Director                  |

**Nomination of Officers:**

Incoming officers will be appointed at the organizational meeting to be held immediately after the Annual Stockholders' Meeting.

**(b) Significant Employees**

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

**(c) 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.

**(d) Certain Relationships and Related Transactions**

There are no known related party transactions other than those described in Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements incorporated herein by reference.

The members of the Related Party Transactions Committee are:

- |                     |                                   |
|---------------------|-----------------------------------|
| 1. Ah Doo Lim       | - Chairman (Independent Director) |
| 2. Joseph R. Higdon | - Member (Independent Director)   |
| 3. Teresita T. Sy   | - Member                          |

### (e) Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Company:

- (1) 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;
- (2) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- (4) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
- (5) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Further, the Company is not involved in or aware of any material legal proceedings that may significantly affect the Company, or any of its subsidiaries or affiliates.

### ITEM 6. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and executive officers of the Company are as follows:

#### Name and Position

1. Harley T. Sy  
President\*
2. Jose T. Sio  
Executive Vice President & Chief Finance Officer\*
3. Elizabeth Anne C. Uychaco  
Senior Vice President - Corporate Services\*
4. Franklin C. Gomez  
Senior Vice President - Finance\*
5. Frederic C. DyBuncio  
Executive Vice President \*

#### **Summary Compensation Table (in million pesos)**

|                                                           | <u>Year</u>     | <u>Salary</u> | <u>Bonus</u> | <u>Other Annual Compensation</u> |
|-----------------------------------------------------------|-----------------|---------------|--------------|----------------------------------|
| * CEO and four Most Highly Compensated Executive Officers | 2017 (estimate) | 102           | 17           | 4                                |
|                                                           | 2016            | 93            | 15           | 4                                |
|                                                           | 2015            | 77            | 13           | 3                                |
| All other officers and Directors as a group unnamed       | 2017 (estimate) | 205           | 34           | 8                                |
|                                                           | 2016            | 186           | 31           | 8                                |
|                                                           | 2015            | 144           | 24           | 6                                |

The Chairman of the Board receives P20,000.00 per diem for each board meeting. All the other directors receive P10,000.00. Aside from the aforementioned compensation, these officers do not receive any other form of remuneration.

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

The members of the Compensation Committee are:

- |                     |                                 |
|---------------------|---------------------------------|
| 1. Teresita T. Sy   | - Chairperson                   |
| 2. Jose T. Sio      | - Member                        |
| 3. Joseph R. Higdon | - Member (Independent Director) |

#### **ITEM 7. Independent Public Accountants, External Audit Fees and Services**

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

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Ms. Julie Christine O. Mateo of SGV & Co. for the examination of the Company's financial statements for 2016. Previously, the Company engaged Ms. Belinda Beng Hui, Mr. Ramon D. Dizon, Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2013 to 2015, 2008 to 2012, 2006 to 2007 and 2001 to 2005, respectively. Ms. Belinda Beng Hui was also an other key audit partner (OKAP) of the Company for 7 years until 2015 for her involvement as an engagement partner in significant subsidiaries of the Company. In compliance with the local Code of Ethics which is based on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, an OKAP has to be rotated off after serving in that role for 7 years.

The aggregate fees of SGV & Co. for the audit of SMIC's annual financial statements in connection with the statutory and regulatory filings for the years ended December 31, 2016 and 2015 amounted to P2.0 million per year. Services rendered include the audit of yearend financial statements and supplementary schedules for submission to SEC and assistance in the preparation of annual income tax returns. In 2016, SMIC paid to SGV & Co. P6.5 million for the review of its interim financial statements for its bond issuance and P0.1 million for a case study. There were no other professional services rendered by SGV & Co. during the period.

SMIC did not engage any other firm for tax accounting, compliance, advice, planning and any form of tax services covering the years 2016 and 2015.

The Audit Committee recommended to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approved the Committee's recommendation.

The members of the Audit Committee are:

- |                     |                                   |
|---------------------|-----------------------------------|
| 1. Tomasa H. Lipana | - Chairman (Independent Director) |
| 2. Ah Doo Lim       | - Member (Independent Director)   |
| 3. Teresita T. Sy   | - Member                          |
| 4. Jose T. Sio      | - Adviser                         |

The members of the Risk Management Committee are:

- |                     |                                   |
|---------------------|-----------------------------------|
| 1. Joseph R. Higdon | - Chairman (Independent Director) |
| 2. Ah Doo Lim       | - Member (Independent Director)   |
| 3. Teresita T. Sy   | - Member                          |
| 4. Jose T. Sio      | - Adviser                         |

**ITEM 8. Compensation Plans**

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

**C. ISSUANCE AND EXCHANGE OF SECURITIES**

**ITEM 9. Authorization or Issuance of Securities Other than for Exchange**

No action will be presented for stockholders' approval at this year's annual meeting which involves authorization or issuance of any securities.

**ITEM 10. Modification or Exchange of Securities**

No action will be presented for stockholders' approval at this year's annual meeting which involves the modification of any class of SMIC's securities, or the issuance of one class of SMIC's securities in exchange for outstanding securities of another class.

**ITEM 11. Financial and Other Information**

The Management Report and Audited Financial Statements of SMIC are incorporated herein by reference.

Representatives of SMIC's external auditor, SGV & Co., will be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the stockholders. SMIC has had no material disagreement with SGV & Co. on any matter of accounting principle or practices or disclosures in SMIC's financial statements.

**ITEM 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action will be presented for stockholders' approval at this year's annual meeting in respect of (1) the merger or consolidation of SMIC into or with any other person, or of any other person into or with SMIC, (2) acquisition by SMIC or any of its stockholders of securities of another person, (3) acquisition by SMIC of any other going business or of the assets thereof, (4) the sale or transfer of all or any substantial part of the assets of SMIC, or (5) liquidation or dissolution of SMIC.

**ITEM 13. Acquisition or Disposition of Property**

The Company and its subsidiaries purchased and sold parcels of land in the normal course of their business.

No action will be presented for stockholders' approval at this year's annual meeting in respect of any acquisition or disposition of property of SMIC.

#### **ITEM 14. Restatement of Accounts**

No action will be presented for stockholders' approval at this year's annual meeting which involves the restatement of any of SMIC's assets, capital or surplus account.

### **D. OTHER MATTERS**

#### **ITEM 15. Action with Respect to Reports**

There is no action to be taken with respect to any report of SMIC or of its directors, officers or committees, except for the approval of the minutes of the previous annual meeting of SMIC.

At the annual meeting, stockholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management for the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, the significant acts or transactions of which are covered by appropriate disclosures with the Securities and Exchange Commission and Philippine Stock Exchange, Inc., including:

- I. Appointment of Franklin C. Gomez as Acting Chief Risk Officer;
- II. Creation of Related Party Transactions Committee;
- III. Authority to Subscribe in BDO Unibank, Inc. Stock Rights Offer;
- IV. Authority to Encumber Property in favor of Carmen Copper Corporation; and
- V. Authority to Participate in the Wholesale Electricity Spot Market.
- VI. Creation of Corporate Governance Committee
- VII. Approval of 7-year Series G Retail Bond

There are no other matters that would require approval of the stockholders.

#### **ITEM 16. Matters Not Required To Be Submitted**

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

#### **ITEM 17. Amendment of Charter, By-Laws or Other Documents**

There is no action to be taken with respect to any amendment of charter, by-laws or other documents required to be submitted to a vote of the stockholders.

#### **ITEM 18. Other Proposed Action**

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

#### **ITEM 19. Voting Procedures**

At each stockholders' meeting, holders of a majority of SMIC's issued and outstanding voting shares that are present or represented by proxy, shall constitute a quorum for the transaction of business, except where otherwise provided by law. A majority of votes shall decide any matter submitted to the stockholders at the meeting, except in those cases where the law requires a greater number.

In the election of directors, the stockholders are entitled to cumulate their votes as discussed in Part I. B, Item 4(c) of this Information Statement.

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

SMIC's By-Laws does not prescribe a manner of voting. However, election of directors may be conducted by ballot as requested by voting stockholders.

In the election of directors, the stockholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement.

SMIC's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the stockholders. The external auditor of the Company, SGV & Co. has been appointed to validate the ballots when necessary.

Stockholders holding SMIC common shares as of March 27, 2017 are entitled to vote on the following matters which are also indicated in the Notice and Agenda included in this Information Statement:

**1. Approval of the minutes of the previous annual meeting held on April 27, 2016**

The stockholders' approval of the minutes of the meeting held on April 27, 2016 will be sought at this year's annual meeting. The following was the agenda of the said meeting.

- Call to order
- Certification of notice and quorum
- Approval of minutes of annual meeting of stockholders held on April 29, 2015
- Annual Report for the Year 2015 (Open Forum)
- Ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting
- Declaration of 50% Stock Dividend
- Approval of increase in authorized capital stock from P12,000,000,000 to P28,000,000,000 and the amendment of Article Seven of the Amended Articles of Incorporation to reflect the capital increase
- Election of directors for 2016 – 2017
- Appointment of external auditors
- Other Matters
- Adjournment

Required vote: A majority vote of stockholders present or represented at the meeting.

**2. Audited Financial Statements as of December 31, 2016**

SMIC's Audited Financial Statements as of December 31, 2016 is attached as Annex "A" to this Information Statement for review of the stockholders. This will enable the stockholders to assess the financial performance of SMIC for the period covered by said financial statements. Stockholders' approval of the financial statement will be sought at this year's annual meeting.

Required vote: A majority vote of stockholders present or represented at the meeting.

**3. Approval and ratification of acts of the Board of Directors during their term of office**

During their term, the Board approved resolutions and authorized actions in connection with their mandate to direct, manage and supervise the affairs and operations of SMIC. The acts of the Board of Directors, its Committees and management listed in Part D, Item 15, during their term of office, will be presented to the stockholders for approval and ratification. In compliance with the PSE Disclosure Rules, the Securities Regulation Code and its implementing rules, and in keeping with the policy on transparency as embodied in SMIC's Manual on Good Corporate Governance, SMIC regularly and promptly discloses actions taken by its Board and management. While stockholders' approval of such acts is not required under the Corporation Code and regulatory issuances, SMIC believes it to be sound corporate governance to present these to the stockholders for approval and ratification.

Required vote: A majority vote of stockholders present or represented at the meeting.

#### **4. Election of Directors**

At the annual meeting, stockholders will be asked to elect the directors for the ensuing year. As stated in Section 3 of Article IV of the Company's By-Laws, "At each meeting of the stockholders for the election of directors, at which a quorum is present, the persons receiving the highest number of votes of the stockholders present in person or by proxy and entitled to vote shall be the directors."

Section 24 of The Corporation Code of the Philippines states that "At all elections of directors or trustees, there must be present, either in person or by representative authorized to act by written proxy, the owners of a majority of the outstanding capital stock... entitled to vote".

Required vote: Candidates receiving the highest number of votes shall be declared elected.

#### **5. Appointment of External Auditor**

Pursuant to SMIC's By-laws, Manual on Corporate Governance, and Audit and Risk Management Committee Charter, the Board, upon the recommendation of the Board Audit Committee, shall recommend to the stockholders, appointment of an external auditor to undertake independent audit and provide objective assurance that the Company's financial reports are in compliance with pertinent accounting standards and regulatory requirements.

At the annual meeting, the stockholders will be requested to approve the re-appointment of SGV & Co. as external auditor of SMIC for the ensuing fiscal year.

Required vote: A majority vote of stockholders present or represented at the meeting.

|                 |
|-----------------|
| <b>PART III</b> |
|-----------------|

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasay City on March 14, 2017.

By: **SM INVESTMENTS CORPORATION**

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**ELMER B. SERRANO**  
Corporate Secretary

## MANAGEMENT REPORT

### A.i Audited Consolidated Financial Statements

The Company's audited consolidated financial statements for the year ended December 31, 2016 are incorporated herein by reference.

### A.ii Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in and disagreements with accountants on accounting and financial disclosures.

### A.iii Management's Discussion and Analysis or Plan of Operation

#### Calendar Year Ended December 31, 2016 and 2015

#### Results of Operation (amounts in billion pesos)

| Accounts                                               | Restated<br>12 / 31 / 2016 | Restated<br>12 / 31 / 2015 | %<br>Change |
|--------------------------------------------------------|----------------------------|----------------------------|-------------|
| <b>Revenue</b>                                         | <b>P 362.8</b>             | <b>P 332.8</b>             | <b>9.0%</b> |
| Cost and Expenses                                      | 295.9                      | 271.3                      | 9.1%        |
| <b>Income from Operations</b>                          | <b>66.9</b>                | <b>61.5</b>                | <b>8.8%</b> |
| Other Charges                                          | 7.6                        | 7.2                        | 6.2%        |
| Provision for Income Tax                               | 11.6                       | 10.6                       | 7.9%        |
| <b>Net Income After Tax</b>                            | <b>47.7</b>                | <b>43.7</b>                | <b>9.4%</b> |
| Non-controlling Interests                              | 16.5                       | 14.8                       | 11.9%       |
| <b>Net Income Attributable to Owners of the Parent</b> | <b>P 31.2</b>              | <b>P 28.9</b>              | <b>8.1%</b> |

*SM Investments Corporation and Subsidiaries (the Group)* reported P31.2 billion *Net Income Attributable to Owners of the Parent*, 8.1% higher than 2015, and P362.8 billion *Revenues*, 9.0% higher than 2015.

*Income from Operations* increased by 8.8% to P66.9 billion from P61.5 billion in 2015. *Operating Margin* and *Net Margin* is at 18.4% and 13.2%, respectively.

*Merchandise Sales*, which grew by 8.5% to P269.3 billion from P248.1 billion in 2015, accounts for 74.2% of total revenues in 2016. The increase is attributable to the opening of 153 Specialty stores and the following new stores in 2016:

|   | <b>SM Department Stores</b> | <b>SM Supermarkets</b> | <b>Savemore Stores</b>     | <b>SM Hypermarkets</b> |
|---|-----------------------------|------------------------|----------------------------|------------------------|
| 1 | SM San Jose Del Monte       | SM San Jose Del Monte  | Savemore Tumauni 2         | Handumanan             |
| 2 | SM Trece Martires           | Trece Martires         | Savemore GMA Portal Cavite | -                      |
| 3 | SM Molino                   | East Ortigas           | Savemore Cedar Peak Baguio | -                      |
| 4 | SM East Ortigas             | -                      | Savemore Bambang           | -                      |

|    | <b><i>SM Department Stores</i></b> | <b><i>SM Supermarkets</i></b> | <b><i>Savemore Stores</i></b> | <b><i>SM Hypermarkets</i></b> |
|----|------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| 5  | -                                  | -                             | Savemore Green Residences     | -                             |
| 6  | -                                  | -                             | Savemore City Mall Kalibo     | -                             |
| 7  | -                                  | -                             | Savemore DDC Paliparan        | -                             |
| 8  | -                                  | -                             | Savemore City Mall Tiaong     | -                             |
| 9  | -                                  | -                             | Savemore Paseo Reale          | -                             |
| 10 | -                                  | -                             | Savemore Cauayan Isabela      | -                             |
| 11 | -                                  | -                             | Savemore City Mall Ilagan 3   | -                             |
| 12 | -                                  | -                             | Savemore Concepcion Tarlac    | -                             |
| 13 | -                                  | -                             | Savemore City Mall Parola     | -                             |
| 14 | -                                  | -                             | Savemore Bagbaurin            | -                             |
| 15 | -                                  | -                             | Savemore Sta. Barbara         | -                             |
| 16 | -                                  | -                             | Savemore Cotabato City        | -                             |
| 17 | -                                  | -                             | Savemore Laoag 2              | -                             |
| 18 | -                                  | -                             | Savemore Jaen Nueva Ecija     | -                             |
| 19 | -                                  | -                             | Savemore Mandalagan           | -                             |
| 20 | -                                  | -                             | Savemore One Mall             | -                             |
| 21 | -                                  | -                             | Savemore Epza Gen Trias       | -                             |
| 22 | -                                  | -                             | Savemore Alapan               | -                             |

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2016 and 2015.

As of December 31, 2016, *SM Retail* had 1,900 stores nationwide, namely: 57 *SM Stores*, 48 *SM Supermarkets*, 156 *Savemore* stores, 44 *SM Hypermarkets*, 39 *WalterMart* stores and 1,556 *Specialty* stores.

*Real Estate Sales* increased by 11.5% to P25.1 billion from P22.5 billion in 2015 due primarily to higher construction accomplishments of projects launched from 2013 to 2015 namely, *Shore 2 Residences* in Pasay City, *Grass Residences* in Quezon City, *Air Residences* in Makati and *South Residences* in Las Piñas and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely *Princeton Residences*, *M Place Residences* and *Mezza II Residences* in Quezon City and *Jazz Residences* in Makati City due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

*Real Estate Gross Margin* improved to 47.5% from 45.7% in 2015. This is attributable to efficient management and tighter monitoring and control of construction costs.

*Rent Revenues*, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.2% to P37.5 billion from P33.5 billion in 2015. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2015 and 2016, namely, *SM Seaside City Cebu*, *SM City Cabanatuan*, *SM City San Mateo*, *SM San Jose Del Monte*, *SM Trece Martires* and *S Maison* in SM Mall of Asia as well as the expansion of shopping spaces in *SM Center Sangandaan*, *SM City Iloilo* and *SM Center Molino*. In addition, retail podiums of *Light, Shine, Shell and Green Residences* opened in 2015 and 2016. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from commercial operations also increased due to the opening of *Five E-com Center* as well as the expansion of *SM Clark* office tower in 2015. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room and occupancy rates and the opening of *Park Inn Clark* in December 2015 and *Conrad Manila* in June 2016.

As of December 31, 2016, *SM Prime* has 60 malls in the Philippines with total GFA of 7.7 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

*Cinema Ticket Sales, Amusement and Others* increased by 1.6% to P6.5 billion from P6.4 billion in 2015.

*Equity in Net Earnings of Associate Companies and Joint Ventures* increased by 4.7% to P15.0 billion from P14.3 billion in 2015.

*Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT)-net* increased by 220.3% to gain of P6.5 million in 2016 from loss of P5.4 million in 2015 due primarily to the gain on sale of AFS investments and favorable changes in the fair value of HFT investments in 2016.

*Dividend Income* decreased by 38.9% to P0.2 billion in 2016 from P0.3 billion in 2015.

*Other Revenues*, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 24.6% to P6.3 billion in 2016 from P5.0 billion in 2015.

*Operating Expenses* increased by 11.2% to P81.8 billion from P73.6 billion in 2015 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

*Other Charges (net)* increased by 6.2% to P7.6 billion from P7.2 billion in 2015. *Interest Expense* increased by 12.2% to P11.8 billion from P10.5 billion in 2015 due mainly to new availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 15.9% to P3.7 billion from P3.2 billion in 2015 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* increased to a gain of P0.6 billion from a loss of P0.1 billion in 2015. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 114.6% to a gain of P15.2 million from a loss of P104.0 million in 2015 which pertains to the US\$250.0 million convertible bonds of SMIC that was settled in April 2015. *Foreign Exchange Gain - net* decreased by 170.7% to a loss of P170.1 million from a gain of P240.8 million in 2015. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP47.06 : USD1.00 in 2015 to PHP49.72 : USD1.00 in 2016.

*Provision for Income Tax* increased by 7.9% to P11.6 billion from P10.6 billion in 2015 due mainly to increase in taxable income. The effective income tax rate is 19.5% in 2016 and 19.7% in 2015.

*Non-controlling interests* increased by 11.9% to P16.5 billion in 2016 from P14.8 billion in 2015 due to the increase in net income of certain partly-owned subsidiaries.

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

| Accounts                            | 12 / 31 / 2016 | Restated<br>12 / 31 / 2015 | % Change     |
|-------------------------------------|----------------|----------------------------|--------------|
| Current Assets                      | P 219.1        | P 174.2                    | 25.8%        |
| Noncurrent Assets                   | 642.4          | 611.3                      | 5.1%         |
| <b>Total Assets</b>                 | <b>P 861.5</b> | <b>P 785.5</b>             | <b>9.7%</b>  |
| Current Liabilities                 | P 134.8        | P 126.8                    | 6.3%         |
| Noncurrent Liabilities              | 311.9          | 274.7                      | 13.5%        |
| <b>Total Liabilities</b>            | <b>446.7</b>   | <b>401.5</b>               | <b>11.3%</b> |
| <b>Total Equity</b>                 | <b>414.8</b>   | <b>384.0</b>               | <b>8.0%</b>  |
| <b>Total Liabilities and Equity</b> | <b>P 861.5</b> | <b>P 785.5</b>             | <b>9.7%</b>  |

Total Assets increased by 9.7% to P861.5 billion from P785.5 billion in 2015. Likewise, total *Liabilities* increased by 11.3% to P446.7 billion from P401.5 billion in 2015.

*Current Assets*

*Current Assets* increased by 25.8% to P219.1 billion from P174.2 billion in 2015.

*Cash and Cash Equivalents* increased by 28.6% to P74.9 billion from P58.3 billion in 2015 due mainly to proceeds from issuance of retail bonds by SM Prime and SMIC.

*Time Deposits* increased by 154.6% to P24.5 billion from P9.6 billion in 2015 due mainly to reclassification of maturing deposits from noncurrent to current.

*Investments Held for Trading and Sale* increased by 214.0% to P3.5 billion from P1.1 billion in 2015 due mainly to reclassification of maturing available-for-sale (AFS) investments from noncurrent to current, partially offset by maturity of certain investment in bonds.

*Merchandise Inventories* increased by 19.6% to P25.8 billion from P21.6 billion in 2015. Bulk of the increase came from the Food Group.

*Other Current Assets* increased by 13.5% to P59.0 billion from P52.0 billion in 2015 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs partially offset by cost of real estate sold.

### Noncurrent Assets

*Noncurrent Assets* increased by 5.1% to P642.4 billion from P611.3 billion in 2015.

*AFS Investments* decreased by 11.8% to P18.7 billion from P21.2 billion in 2015 due mainly to the reclassification of maturing bonds to current and the decrease in the market value of certain AFS investments.

*Investments in Associate Companies and Joint Ventures* increased by 6.2% to P181.2 billion from P170.6 billion in 2015. The increase mainly represents equity in net earnings of associates in 2016 partially offset by dividends received from these associate companies.

*Time Deposits* decreased by 20.9% to P42.0 billion from P53.1 billion in 2015 due mainly to the reclassification of maturing time deposits to current.

*Investment Properties* increased by 8.2% to P270.1 billion from P249.6 billion in 2015 due mainly to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines; expansions and renovations of *SM Mall of Asia*, *SM City Sucat* and *SM Xiamen*; and ongoing projects of the commercial and hotel groups namely *Three E-Com Center*, *Four E-Com Center* and *Conrad Manila*.

*Land and Development* decreased by 13.0% to P23.8 billion from P27.4 billion in 2015 due mainly to reclassification of launched projects to current.

*Intangibles* decreased by 0.5% to P25.7 billion from P25.8 billion in 2015 resulting from the amortization of Trademarks acquired in 2015.

*Other Noncurrent Assets* increased by 41.9% to P57.3 billion from P40.4 billion in 2015. The increase mainly represents additional loans to an associate company, new derivative assets to hedge the Group's foreign exchange and interest rate risk, additional bonds and deposits for real estate acquisitions, and construction accomplishments of sold units as well as new sales for the period.

### Current Liabilities

*Current Liabilities* increased by 6.3% to P134.8 billion from P126.8 billion in 2015.

*Bank Loans* increased by 33.3% to P14.0 billion from P10.5 billion in 2015 resulting from new availments net of payments during the period.

*Current Portion of Long-term Debt* decreased by 1.5% to P25.6 billion from P26.0 billion in 2015 due mainly to payments of maturing loans.

*Accounts Payable and Other Current Liabilities* increased by 4.7% to P89.3 billion from P85.3 billion in 2015 mainly from higher business volume.

*Dividends Payable* increased by 28.4% to P3.3 billion from P2.6 billion in 2015. This represents dividends due to minority stockholders of certain subsidiaries.

*Income Tax Payable* increased by 8.9% to P2.7 billion in 2016 from P2.5 billion in 2015 due mainly to higher taxable income in 2016.

### Noncurrent Liabilities

*Noncurrent Liabilities* increased by 13.5% to P311.9 billion from P274.7 billion in 2015.

*Long-term Debt - Net of Current Portion* increased by 14.3% to P280.3 billion from P245.2 billion in 2015 due mainly to new availments.

*Tenants' Deposits and Others* increased by 13.1% to P23.7 billion from P21.0 billion in 2015. The increase is attributable to new malls and expansions as well as increase in customers' deposits from residential buyers.

*Deferred Tax Liabilities*, which arose mainly from appraisal increment on investment property, trademarks and brand names, capitalized interest and unrealized gross profit on sale of real estate, decreased by 7.8% to P7.9 billion from P8.6 billion in 2015.

### Equity

Total *Equity* increased by 8.0% to P414.8 billion from P384.0 billion in 2015.

*Equity Attributable to Owners of the Parent* increased by 7.3% to P300.5 billion from P280.0 billion in 2015. This increase resulted mainly from (a) *Capital Stock* which increased by 50% to P12.0 billion from P8.0 billion as a result of the declaration of 50% stock dividends in 2016, (b) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 15.0% to P1.2 billion from P1.1 billion in 2015. These were partially offset by (c) *Net Unrealized Gain on AFS Investments* which decreased by 15.3% to P10.8 billion from P12.7 billion in 2015 due mainly to the depreciation in market value of AFS investments of subsidiaries and associates, (d) *Equity adjustment from common control transactions* which increased by 1.6% to P5.4 billion from P5.3 billion in relation to the Retail merger, and (e) *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.2 billion as a result of valuation of the Group's retirement plan.

*Non-controlling Interests* increased by 9.9% to P114.3 billion from P104.0 billion in 2015 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

### Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2016 and 2015:

| Accounts                               | 12 / 31/ 2016 | 12 / 31/ 2015 |
|----------------------------------------|---------------|---------------|
| Current Ratio                          | 1.6           | 1.4           |
| Asset to Equity                        | 2.1           | 2.0           |
| Debt-equity Ratios:                    |               |               |
| On Gross Basis                         | 52 : 48       | 50 : 50       |
| On Net Basis                           | 37 : 63       | 36 : 64       |
| Revenue Growth                         | 9.0%          | 7.3%          |
| Net Margin                             | 13.2%         | 13.1%         |
| Net Income Growth                      | 8.1%          | 1.7%          |
| Return on Equity                       | 10.8%         | 10.8%         |
| EBITDA ( <i>In Billions of Pesos</i> ) | 79.8B         | P73.4B        |
| Interest Cover                         | 6.8x          | 7.0x          |

*Current Ratio* increased to 1.6 from 1.4 in 2015 due mainly to 25.8% increase in *Current Assets* with only 6.3% increase in *Current Liabilities*.

Asset to equity ratio slightly increased to 2.1 from 2.0 in 2015.

Gross debt-equity ratio slid to 52:48 in 2016 from 50:50 in 2015 due to higher increase in gross debts of 13.6% compared to increase in *Equity Attributable to Owners of the Parent* of only 7.3%.

Net debt-equity ratio slid to 37:63 from 36:64 in 2015 due to higher increase in net debts of 11.5% from P156.7 billion to P174.8 billion in 2016.

Revenue growth increased to 9.0% from 7.3% in 2015 due mainly to higher growth of *Merchandise* and *Real Estate Sales* and *Rent Income*.

Net income growth increased to 8.1% from 1.7% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity was maintained at 10.8% in 2016 and 2015.

EBITDA increased by 8.7% to P79.8 billion from P73.4 billion in 2015 due mainly to the 8.8% increase in income from operations.

Interest Cover slightly decreased to 6.8x from 7.0x in 2015 due to 12.2% increase in interest expense.

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

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

## Expansion Plans / Prospects for the Future

### Malls

In 2017, SM Prime will be opening at least 4 new malls in the Philippines. By yearend, SM Prime will have a total of 71 malls, 64 in the Philippines and 7 in China with an estimated combined gross floor area of 9.3 million square meters.

### Residential

In 2017, SM Prime plans to launch about 15,000 to 18,000 residential condominium units in the cities of Parañaque, Makati, Pasay, Quezon City in Metro Manila and in the provinces of Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, Bulacan and Tagaytay. These are a combination of new projects and expansion of existing projects.

### Commercial

SM Prime is currently constructing Three E-Com Center and Four E-Com Center in the Mall of Asia Complex. These are scheduled for completion in 2018 and 2020, respectively.

### Hotels and Convention Centers

SM Prime currently has a portfolio of six hotels with 1,510 saleable rooms, including Conrad Manila in the Mall of Asia Complex in Pasay City which opened in June 2016, four convention centers and three trade halls with 37,481 square meters of leasable space.

The Property Group's land banking initiatives will continue in 2017.

The Retail Group will be opening 2 department stores, 2 supermarkets, 15 Savemore branches, 3 hypermarkets and 109 specialty stores.

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

## Calendar Year Ended December 31, 2015 and 2014

### Results of Operation

(amounts in billion pesos)

| Accounts                                               | Restated<br>12 / 31 / 2015 | Restated<br>12 / 31 / 2014 | %<br>Change |
|--------------------------------------------------------|----------------------------|----------------------------|-------------|
| <b>Revenue</b>                                         | <b>P 332.8</b>             | <b>P 310.1</b>             | <b>7.3%</b> |
| Cost and Expenses                                      | 271.3                      | 253.9                      | 6.9%        |
| <b>Income from Operations</b>                          | <b>61.5</b>                | <b>56.2</b>                | <b>9.5%</b> |
| Other Charges                                          | 7.2                        | 5.9                        | 20.7%       |
| Provision for Income Tax                               | 10.6                       | 8.7                        | 22.7%       |
| <b>Net Income After Tax</b>                            | <b>43.7</b>                | <b>41.6</b>                | <b>5.1%</b> |
| Non-controlling Interests                              | 14.8                       | 13.2                       | 12.4%       |
| <b>Net Income Attributable to Owners of the Parent</b> | <b>P 28.9</b>              | <b>P 28.4</b>              | <b>1.7%</b> |

SM Investments Corporation and Subsidiaries (the Group) reported P28.9 billion Net Income Attributable to Owners of the Parent, 1.7% higher than 2015, and P332.8 billion Revenues, 7.3% higher than 2014.

Income from Operations increased by 9.5% to P61.5 billion from P56.2 billion in 2014. Operating Margin and Net Margin is at 18.5% and 13.1%, respectively.

*Merchandise Sales*, which grew by 7.4% to P248.1 billion from P230.9 billion in 2014, accounts for 74.5% of total revenues in 2015. The increase is attributable to the opening of 148 Specialty stores and the following new stores in 2015:

|    | <b><i>SM Department Stores</i></b> | <b><i>SM Supermarkets</i></b> | <b><i>Savemore Stores</i></b>    | <b><i>SM Hypermarkets</i></b> |
|----|------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| 1  | SM San Mateo                       | San Mateo                     | Savemore Salawag                 | Lapu-Lapu                     |
| 2  | SM Cabanatuan                      | Cabanatuan                    | Savemore San Fernando, La Union  | Cherry Congressional          |
| 3  | SM Cebu SRP                        | Cherry Shaw                   | Savemore M. Alvarez              | -                             |
| 4  | -                                  | Sangandaan                    | Savemore Talavera                | -                             |
| 5  | -                                  | Seaside Cebu                  | Savemore Light Residences        | -                             |
| 6  | -                                  | -                             | Savemore Binalonan               | -                             |
| 7  | -                                  | -                             | Savemore Muzon                   | -                             |
| 8  | -                                  | -                             | Savemore Naga Cebu               | -                             |
| 9  | -                                  | -                             | Savemore Echague, Isabela        | -                             |
| 10 | -                                  | -                             | Savemore City Mall Consolacion   | -                             |
| 11 | -                                  | -                             | Savemore Banlic                  | -                             |
| 12 | -                                  | -                             | Savemore Subic                   | -                             |
| 13 | -                                  | -                             | Savemore Dinalupihan             | -                             |
| 14 | -                                  | -                             | Savemore Nasugbu                 | -                             |
| 15 | -                                  | -                             | Savemore Sorsogon 2              | -                             |
| 16 | -                                  | -                             | Savemore Silay                   | -                             |
| 17 | -                                  | -                             | Savemore City Mall Imus          | -                             |
| 18 | -                                  | -                             | Savemore My Place South Triangle | -                             |
| 19 | -                                  | -                             | Savemore La Trinidad             | -                             |
| 20 | -                                  | -                             | Savemore Citywalk                | -                             |
| 21 | -                                  | -                             | Savemore Binangonan              | -                             |
| 22 | -                                  | -                             | Savemore Alaminos Pangasinan     | -                             |
| 23 | -                                  | -                             | Savemore Sta. Ana                | -                             |
| 24 | -                                  | -                             | Savemore Cabuyao                 | -                             |

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2015 and 2014.

As of December 31, 2015, *SM Retail* had 1,729 stores nationwide, namely: 53 *SM Stores*, 45 *SM Supermarkets*, 136 *Savemore* stores, 44 *SM Hypermarkets*, 32 *WalterMart* stores and 1,419 Specialty stores.

*Real Estate Sales* slightly decreased to P22.5 billion from P22.6 billion in 2014 or 0.4% due primarily to lower revenues recognized from larger projects launched in 2010 and 2011 as these were mostly completed in 2015. The bulk of revenues to be recognized for projects launched in 2013 and 2014, which enjoyed brisk sales, will begin in 2016 when actual construction begins. The actual construction of a project usually starts within 12 to 18 months from launch date and revenue is recognized based on percentage of completion.

*Real Estate Gross Margin* improved to 45.7% from 44.6% in 2014. This is attributable to efficient management and tighter monitoring and control of construction costs.

*Rent Revenues*, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 10.0% to P33.5 billion from P30.4 billion in 2014. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013, 2014 and 2015, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong, *SM Center Angono* and *SM City San Mateo* in Rizal province, and *SM City Bacolod* in Negros Occidental province for a total gross floor area (GFA) addition of 728,000 square meters. Excluding the new malls and expansions, same-store rental growth is 7%. Rent from commercial operations also increased due to the opening of SM Cyber West and Five E-Com Center with an average occupancy rate of 98%. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room rates and occupancy rates.

As of December 31, 2015, *SM Prime* has 56 malls in the Philippines with total GFA of 7.3 million square meters and 6 malls in China with total GFA of 0.9 million square meters.

*Equity in Net Earnings of Associate Companies and Joint Ventures* increased by 6.7% to P14.3 billion from P13.4 billion in 2014. This is attributable mainly to the 9.7% increase in net income of BDO.

*Cinema Ticket Sales, Amusement and Others* increased by 11.4 % to P6.4 billion from P5.8 billion in 2014 due to blockbuster movies shown in 2015 and increase in amusement revenues due mainly to the opening of *Sky Ranch* Pampanga.

*Management and Service Fees*, which is computed based on percentage of sales, increased by 24.0% to P2.7 billion from P2.2 billion in 2014.

*Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading - net* decreased by 111.2% to loss of P5.4 million in 2015 from gain of P48.5 million in 2014 due primarily to the gain on sale of AFS investments in 2014.

*Dividend Income* increased by 225.1 % to P0.3 billion in 2015 from P0.1 billion in 2014 due to higher dividends received from certain investees.

*Other Revenues*, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 9.7% to P5.0 billion in 2015 from P4.6 billion in 2014.

*Operating Expenses* increased by 5.6% to P73.6 billion from P69.7 billion in 2014 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

*Other Charges (net)* increased by 20.7% to P7.2 billion from P5.9 billion in 2014. *Interest Expense* decreased by 12.1% to P10.5 billion from P11.9 billion in 2014 due mainly to loan payments during the year and capitalized interest taken up on new loans availed for capital expenditure requirements. *Interest Income* increased by 3.8% to P3.2 billion from P3.1 billion

in 2014 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* decreased by 101.8% to loss of P51.1 million from gain of P2.9 billion in 2014 resulting mainly from the sale of the Group's 2% stake in BDO in 2014. *Loss on Fair Value Changes on Derivatives* decreased by 45.1% to P0.1 billion from P0.2 billion in 2014. This fair value change pertains mainly to the US\$250.0 million convertible bonds of SMIC which was fully settled in April 2015. *Foreign Exchange Gain - net* increased by 34.5% to P240.8 million from P179.1 million in 2014. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.72 : USD1.00 in 2014 to PHP47.06 : USD1.00 in 2015.

*Provision for Income Tax* increased by 22.7% to P10.7 billion from P8.7 billion in 2014 due to increase in taxable income as well as expiration of income tax holiday incentives on a number of residential projects. The effective income tax rate is 19.7% in 2015 and 17.4% in 2014.

*Non-controlling interests* increased by 12.4% to P14.8 billion in 2015 from P13.2 billion in 2014 due to the increase in net income of certain partly-owned subsidiaries.

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

| <b>Accounts</b>                     | <b>Restated<br/>12 / 31 / 2015</b> | <b>Restated<br/>12 / 31 / 2014</b> | <b>% Change</b> |
|-------------------------------------|------------------------------------|------------------------------------|-----------------|
| Current Assets                      | P 174.2                            | P 193.8                            | -10.1%          |
| Noncurrent Assets                   | 611.3                              | 531.9                              | 14.9%           |
| <b>Total Assets</b>                 | <b>P 785.5</b>                     | <b>P 725.7</b>                     | <b>8.2%</b>     |
| Current Liabilities                 | P 126.8                            | P 110.3                            | 15.0%           |
| Noncurrent Liabilities              | 274.7                              | 264.2                              | 4.0%            |
| <b>Total Liabilities</b>            | <b>401.5</b>                       | <b>374.5</b>                       | <b>7.2%</b>     |
| <b>Total Equity</b>                 | <b>384.0</b>                       | <b>351.2</b>                       | <b>9.3%</b>     |
| <b>Total Liabilities and Equity</b> | <b>P 785.5</b>                     | <b>P 725.7</b>                     | <b>8.2%</b>     |

Total Assets increased by 8.2% to P785.5 billion from P725.7 billion in 2014. Likewise, total *Liabilities* increased by 7.2% to P401.5 billion from P374.5 billion in 2014.

#### Current Assets

*Current Assets* decreased by 10.1% to P174.2 billion from P193.8 billion in 2014.

*Cash and Cash Equivalents* decreased by 20.6% to P58.3 billion from P73.4 billion in 2014 due mainly to new investments in associates, capital expenditures, and payment of dividends.

*Time Deposits* increased by 6.8% to P9.6 billion from P9.0 billion in 2014 resulting mainly from the effect of restatement due to change in foreign exchange rates.

*Investments Held for Trading and Sale* decreased by 73.7% to P1.1 billion from P4.2 billion in 2014 due mainly to available-for-sale (AFS) investments which matured during the period and the reclassification of a certain investment to Investments in associate companies and joint ventures.

*Receivables* increased by 2.0% to P31.6 billion from P30.9 billion in 2014 due mainly to the increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units and increase in *Receivable from Tenants*.

*Merchandise Inventories* increased by 11.0% to P21.6 billion from P19.4 billion in 2014. The increase is mainly attributable to the Food Group.

*Other Current Assets* decreased by 8.5% to P52.0 billion from P56.9 billion in 2014 due to the collection of receivable from sale of a portion of the Group's stake in an associate in 2014, partly offset by the increase in condominium units for sale due to completion of condominium towers M Place @ South Triangle, Jazz, Mezza II and Shell Residences and increase in *Advances and Deposits*.

#### Noncurrent Assets

*Noncurrent Assets* increased by 14.9% to P611.3 billion from P531.9 billion in 2014.

*AFS Investments* increased by 10.5% to P21.2 billion from P19.2 billion in 2014 due mainly to increase in market value of certain AFS investments and new AFS investments.

*Investments in Associate Companies and Joint Ventures* increased by 16.9% to P170.6 billion from P146.0 billion in 2014 due mainly to new investments plus one year *Equity in Net Earnings of Associate Companies and Joint Ventures*, net of *Dividend Income*.

*Time Deposits* increased by 11.7% to P53.1 billion from P47.6 billion in 2014. The increase pertains to the proceeds of certain AFS bonds which matured during the period and effect of restatement due to change in foreign exchange rates.

*Property and Equipment* decreased by 2.0% to P20.6 billion from P21.1 billion in 2014.

*Investment Properties* increased by 17.8% to P249.6 billion from P211.9 billion in 2014. The increase mainly represents mall-related investments in land and buildings located in Cagayan de Oro, Cavite City, and Bulacan in the Philippines and Tianjin in China and the ongoing expansions of SM Mall of Asia; landbanking; and, construction costs incurred for ongoing projects of the Commercial and Hotel groups namely, Three E-com Center and Conrad Manila.

*Land and Development* increased by 2.8% to P27.4 billion from P26.6 billion in 2014 due mainly to landbanking and construction accomplishments during the period.

*Intangibles* increased by 10.3% to P25.8 billion from P23.4 billion in 2014 due mainly to Trademarks resulting from a new acquisition.

*Deferred Tax Assets* increased by 12.8% to P2.6 billion from P2.3 billion in 2014 due mainly to NOLCO, Accrued leases and Unrealized foreign exchange losses.

*Other Noncurrent Assets* increased by 19.1% to P40.4 billion from P33.9 billion in 2014 due mainly to additional bonds and deposits for real estate acquisitions, increase in *Derivative Assets* and *Deferred Input Vat*, and a new long-term note.

#### Current Liabilities

*Current Liabilities* increased by 15.0% to P126.8 billion from P110.3 billion in 2014.

*Bank Loans* decreased by 27.1% to P10.5 billion from P14.4 billion in 2014 resulting from net payments during the period.

*Current Portion of Long-term Debt* increased by 143.6% to P26.0 billion from P10.7 billion in 2014 due mainly to reclassification of maturing debts from noncurrent to current.

*Accounts Payable and Other Current Liabilities* increased by 7.1% to P85.3 billion from P79.6 billion in 2014 mainly from higher business volume.

*Dividends Payable* decreased by 30.0% to P2.6 billion from P3.7 billion in 2014. This represents dividends due to minority stockholders of certain subsidiaries.

*Income Tax Payable* increased by 27.8% to P2.5 billion in 2015 from P1.9 billion in 2014 due mainly to higher taxable income in 2015.

#### *Noncurrent Liabilities*

*Noncurrent Liabilities* increased by 4.0% to P274.7 billion from P264.2 billion in 2014.

*Long-term Debt - Net of Current Portion* increased by 3.4% to P245.2 billion from P237.1 billion in 2014 due mainly to new loan availments and bond issuances to fund capital expenditures and for working capital requirements.

*Tenants' Deposits and Others* increased by 9.6% to P21.0 billion from P19.1 billion in 2014. The increase pertains mainly to SM Prime's customers' deposits and deferred output vat.

*Deferred Tax Liabilities* increased by 8.2% to P8.6 billion from P7.9 billion in 2014 due mainly to unrealized gross profit on sale of real estate for tax purposes.

*Noncurrent Derivative Liability* is nil in 2015 and P58.7 million in 2014. All outstanding interest rate swaps matured in 2015.

#### *Equity*

Total *Equity* increased by 9.3% to P384.0 billion from P351.2 billion in 2014.

*Equity Attributable to Owners of the Parent* increased by 11.1% to P280.0 billion from P252.2 billion in 2014. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 6.2% to P76.4 billion from P72.0 billion in 2014 due to the conversion of US\$ bonds to SMIC common shares (b) *Net Unrealized Gain on AFS Investments* which increased by 24.7% to P12.7 billion from P10.2 billion in 2014 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Re-measurement Gain (Loss) on Defined Benefit Asset/Obligation* which increased by P0.3 billion as a result of valuation of the Group's retirement plan, and (d) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 22.1% to P1.1 billion from P0.9 billion in 2014.

*Non-controlling Interests* increased by 4.9% to P104.0 billion from P99.1 billion in 2014 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

## Key Performance Indicators

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

| Accounts                               | 12 / 31/ 2015 | 12 / 31/ 2014 |
|----------------------------------------|---------------|---------------|
| Current Ratio                          | 1.4           | 1.8           |
| Asset to Equity                        | 2.0           | 2.1           |
| Debt-equity Ratios:                    |               |               |
| On Gross Basis                         | 50 : 50       | 51 : 49       |
| On Net Basis                           | 36 : 64       | 34 : 66       |
| Revenue Growth                         | 7.3%          | 7.6%          |
| Net Margin                             | 13.1%         | 13.4%         |
| Net Income Growth                      | 1.7%          | 5.5%          |
| Return on Equity                       | 10.8%         | 12.1%         |
| EBITDA ( <i>In Billions of Pesos</i> ) | P73.4B        | P67.6B        |
| Interest Cover                         | 7.0x          | 5.7x          |

*Current Ratio* decreased to 1.4 from 1.8 in 2014 due mainly to 10.1% decrease in *Current Assets* coupled with a 15.0% increase in *Current Liabilities*.

Asset to equity ratio slightly decreased to 2.0 from 2.1 in 2014.

Gross debt-equity ratio improved to 50:50 in 2015 from 51:49 in 2014 due to higher increase in *Equity Attributable to Owners of the Parent* by 11.1% compared to only 7.4% increase in gross debt.

Net debt-equity ratio slid to 36:64 from 34:66 in 2014 due to higher increase in net debt of 22.9% from P127.5 billion to P156.7 billion in 2015.

Revenue growth slightly decreased to 7.3% from 7.6% in 2014.

Net income growth decreased to 1.7% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity decreased to 10.8% from 12.1% in 2014 due mainly to lower net income growth and higher equity growth in 2015.

EBITDA increased by 8.6% to P73.4 billion from P67.6 billion in 2014.

Interest Cover improved to 7.0x from 5.7x in 2014 due to 12.1% lower interest expense.

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

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

## Expansion Plans / Prospects for the Future

### Malls

In 2016, SM Prime will be opening 5 new malls in the Philippines. It also plans to expand *SM City Calamba* in Laguna and *SM City Naga* in Bicol province. By yearend, SM Prime will have a total of 67 malls, 61 in the Philippines and 6 in China with an estimated 8.6 million square meters of gross floor area.

### Residential

In 2016, SM Prime plans to launch about 11,000 to 14,000 residential units in the cities of Quezon, Bicutan, Sucat, Las Piñas and Pasay. SM Prime is also set to launch new mixed-use developments in Bulacan, Pampanga and Cavite.

### Commercial

SM Prime is currently constructing Three E-Com Center and Four E-Com Center in the Mall of Asia Complex. These are scheduled for completion in 2017 and 2019, respectively.

### Hotels and Convention Centers

Conrad Manila in the Mall of Asia Complex is expected to open in the first half of 2016.

The Property Group's land banking initiatives will continue in 2016.

The Retail Group will be opening 3 department stores, 2 supermarkets, 18 Savemore branches, 2 hypermarkets and 139 specialty stores.

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

## Calendar Year Ended December 31, 2014 and 2013

### Results of Operation

(amounts in billion pesos)

| Accounts                                               | Restated<br>12 / 31 / 2014 | Restated<br>12 / 31 / 2013 | %<br>Change |
|--------------------------------------------------------|----------------------------|----------------------------|-------------|
| <b>Revenue</b>                                         | <b>P 310.1</b>             | <b>P 288.0</b>             | <b>7.6%</b> |
| Cost and Expenses                                      | 253.9                      | 234.1                      | 8.4%        |
| <b>Income from Operations</b>                          | <b>56.2</b>                | <b>53.9</b>                | <b>4.2%</b> |
| Other Charges                                          | 5.9                        | 7.7                        | (22.9%)     |
| Provision for Income Tax                               | 8.7                        | 6.2                        | 40.1%       |
| <b>Net Income After Tax</b>                            | <b>41.6</b>                | <b>40.0</b>                | <b>3.8%</b> |
| Non-controlling Interests                              | 13.2                       | 13.1                       | 0.4%        |
| <b>Net Income Attributable to Owners of the Parent</b> | <b>P 28.4</b>              | <b>P 26.9</b>              | <b>5.5%</b> |

*SM Investments Corporation and Subsidiaries (the Group)* reported P28.4 billion *Net Income Attributable to Owners of the Parent*, 5.5% higher than 2013, and *Revenues* of P310.1 billion, 7.6% higher than 2013.

*Income from Operations* increased by 4.2% to P56.2 billion from P53.9 billion in 2013. *Operating Margin* and *Net Margin* is at 18.1% and 13.4%, respectively.

*Merchandise Sales*, which grew by 7.9% to P230.9 billion from P213.9 billion in 2013, accounts for 74.5% of the total revenues in 2014. The increase is attributable to the opening of 138 Specialty stores and of the following new stores in 2014:

|    | <b><i>SM Department Stores</i></b> | <b><i>SM Supermarkets</i></b> | <b><i>SaveMore Stores</i></b>  | <b><i>SM Hypermarkets</i></b> |
|----|------------------------------------|-------------------------------|--------------------------------|-------------------------------|
| 1  | SM Cauayan                         | Cauayan                       | SaveMore Nunez                 | Daet                          |
| 2  | SM Mega Center                     | -                             | SaveMore San Pedro             | Sun Residences                |
| 3  | -                                  | -                             | SaveMore Sta. Cruz             | Rosario                       |
| 4  | -                                  | -                             | SaveMore Candon                | -                             |
| 5  | -                                  | -                             | SaveMore Francis Market        | -                             |
| 6  | -                                  | -                             | SaveMore Agora Lucena          | -                             |
| 7  | -                                  | -                             | SaveMore Solano 2              | -                             |
| 8  | -                                  | -                             | SaveMore Tumauni               | -                             |
| 9  | -                                  | -                             | SaveMore Cyberwest             | -                             |
| 10 | -                                  | -                             | SaveMore San Nicolas           | -                             |
| 11 | -                                  | -                             | SaveMore Camiling              | -                             |
| 12 | -                                  | -                             | SaveMore Guagua                | -                             |
| 13 | -                                  | -                             | SaveMore Angono 2              | -                             |
| 14 | -                                  | -                             | SaveMore Bayombong             | -                             |
| 15 | -                                  | -                             | SaveMore Santiago 2            | -                             |
| 16 | -                                  | -                             | SaveMore Roxas Isabela         | -                             |
| 17 | -                                  | -                             | SaveMore Tacloban              | -                             |
| 18 | -                                  | -                             | SaveMore Calumpang Gensan      | -                             |
| 19 | -                                  | -                             | SaveMore Fortune Town          | -                             |
| 20 | -                                  | -                             | SaveMore San Fernando Pampanga | -                             |
| 21 | -                                  | -                             | SaveMore Cabiao                | -                             |
| 22 | -                                  | -                             | SaveMore Francis Market        | -                             |

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2014 and 50% and 50%, respectively, of merchandise sales in 2013.

As of December 31, 2014, *SM Retail* had 1,551 stores nationwide, namely: 50 *SM Stores*, 40 *SM Supermarkets*, 113 *SaveMore* stores, 42 *SM Hypermarkets* and 24 *WalterMart* stores and 1,282 Specialty stores.

*Real Estate Sales* increased by 6.5% to P22.6 billion from P21.2 billion in 2013 due to higher construction accomplishments of projects and increase in number of units sold in Grace Residences in Taguig, Shell Residences, Shore Residences and Breeze Residences in Pasay, Green Residences in Manila, Shine Residences in Pasig, and Grass Residences Phase 2 and Trees Residences in Quezon City.

*Real Estate Gross Margin* improved to 44.6% from 42.4% in 2013. This is attributable to efficient management and the reigning-in of construction costs.

*Rent Revenues*, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 10.7% to P30.4 billion from P27.5 billion in 2013. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013 and 2014, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province, as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong and *SM Center Angono* in Rizal province. The expanded mall gross floor area is now 6.5 million square meters, an increase of 0.3 million square meters from yearend 2013. Excluding the new malls and expansions, same-store rental growth is at 7%.

As of December 31, 2014, *SM Prime* had 50 malls in the Philippines and 5 malls in China.

*Cinema Ticket Sales, Amusement and Others* increased by 16.7% to P5.8 billion from P4.9 billion in 2013 due to the opening of additional digital cinemas in the new/expanded malls and the showing of international and local blockbuster movies. Strong patronage of amusement rides and additional recreational facilities also contributed to the increase.

*Equity in Net Earnings of Associates and Joint Ventures* decreased by 2.6% to P13.4 billion from P13.8 billion in 2013. This is attributable mainly to *BDO's* exceptional trading gains in early 2013.

*Gain on Sale of Available-for-sale Investments and Fair Value Changes on Investments Held for Trading - net* decreased by 65.6% to P48.5 million in 2014 from P141.2 million in 2013 due primarily to the gain on sale of available-for-sale investments in 2013.

*Dividend Income* decreased by 49.4% to P0.1 billion in 2014 from P0.2 billion in 2013 due to decrease in dividends received from certain investees.

*Other Revenues*, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues slightly increased by 10.2% to P4.6 billion in 2014 from P4.2 billion in 2013.

*Operating Expenses* increased by 13.2% to P69.7 billion from P61.6 billion in 2013 due mainly to additional operating expenses associated with the construction of new, and/or, expansion of malls, new retail stores, store renovations and current real estate projects.

*Other Charges (net)* decreased by 22.9% to P5.9 billion from P7.7 billion in 2013. *Interest Expense* increased by 7.3% to P11.9 billion from P11.1 billion in 2013 due mainly to loan availments during the year. *Interest Income* decreased by 18.0% to P3.1 billion from P3.8 billion in 2013 due to lower average balance of temporary investments. *Gain on disposal of investments and properties - net* increased by 426.9% to P2.9 billion from P0.5 billion in 2013 resulting mainly from the sale of the Group's 2% stake in BDO. *Loss on Fair Value Changes on Derivatives - net* decreased by 81.0% to P0.2 billion from P1.0 billion in 2013. This fair value change pertains mainly to the US\$250.0 million convertible bonds of SMIC. *Foreign Exchange Gain and Others* increased by 201.4% to P179.1 million from P59.4 million in 2013. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.40 : USD1.00 in 2013 to PHP44.72 : USD1.00 in 2014.

*Provision for Income Tax* increased by 40.1% to P8.7 billion from P6.2 billion in 2013 resulting mainly from the SM Property group restructuring transaction in 2013, higher taxable income in 2014 as well as expiration of certain income tax holiday incentives on certain residential projects of *SM Prime* in 2014. The effective income tax rate is 17.4% in 2014 and 13.5% in 2013.

*Non-controlling Interests* increased by 0.4% to P13.2 billion in 2014 from P13.1 billion in 2013.

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

| Accounts                            | 12 / 31 / 2014 | 12 / 31 / 2013 | % Change     |
|-------------------------------------|----------------|----------------|--------------|
| Current assets                      | P 193.8        | P 175.9        | 10.2%        |
| Noncurrent assets                   | 531.9          | 471.7          | 12.8%        |
| <b>Total assets</b>                 | <b>P 725.7</b> | <b>P 647.6</b> | <b>12.1%</b> |
| Current liabilities                 | P 110.3        | P 148.8        | -25.9%       |
| Noncurrent Liabilities              | 264.2          | 197.2          | 34.0%        |
| <b>Total Liabilities</b>            | <b>374.5</b>   | <b>346.0</b>   | <b>8.2%</b>  |
| <b>Total Equity</b>                 | <b>351.2</b>   | <b>301.6</b>   | <b>16.5%</b> |
| <b>Total Liabilities and Equity</b> | <b>P 725.7</b> | <b>P 647.6</b> | <b>12.1%</b> |

Total Assets increased by 12.1% to P725.7 billion from P647.6 billion in 2013. Likewise, total *Liabilities* increased by 8.2% to P374.5 billion from P346.0 billion in 2013.

Current Assets

*Current Assets* increased by 10.2% to P193.8 billion from P175.9 billion in 2013.

*Cash and Cash Equivalents* increased by 30.1% to P73.4 billion from P56.4 billion in 2013. The increase represents the loan proceeds from availments and share sale proceeds from SM Prime's top-up placement in 2014.

*Time Deposits* decreased by 68.9% to P9.0 billion from P28.9 billion in 2013 due to maturity of certain Short-term deposits, a portion of which was used to pay off maturing bonds and/or reinvested in Long-term time deposits.

*Investments Held for Trading and Sale* increased by 274.5% to P4.2 billion from P1.1 billion in 2013 due mainly to new available-for-sale (AFS) investments and reclassification of maturing noncurrent AFS investments.

*Receivables* increased by 12.7% to P30.9 billion from P27.5 billion in 2013 due mainly to the increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units as well as new sales for the period and increase in *Receivable from Tenants*.

*Merchandise Inventories* increased by 14.3% to P19.4 billion from P17.0 billion in 2013. The increase is mainly attributable to the Food Group.

*Other Current Assets* increased by 26.4% to P56.9 billion from P45.0 billion in 2013 due mainly to the receivable resulting from the sale of the Group's 2% stake in BDO.

Noncurrent Assets

*Noncurrent Assets* increased by 12.8% to P531.9 billion from P471.7 billion in 2013.

*AFS Investments* increased by 16.1% to P19.2 billion from P16.5 billion in 2013 due mainly to increase in market value of certain AFS investments and new AFS investments.

*Investments in Associate Companies and Joint Ventures* increased by 4.7% to P146.0 billion from P139.5 billion in 2013 mainly due to the 12-month *Equity in Net Earnings of Associates and Joint Ventures*, net of *Dividend Income* received from these associates and sale of 2% stake in BDO.

*Time Deposits* increased by 73.1% to P47.6 billion from P27.5 billion in 2013 due mainly to the reinvestment of matured deposits from short-term to long-term.

*Property and Equipment* increased by 8.5% to P21.1 billion from P19.4 billion in 2013 due mainly from new stores in 2014.

*Investment Properties* increased by 11.9% to P211.9 billion from P189.4 billion in 2013. The increase mainly represents mall-related investments in land and buildings located in Cebu City, Cabanatuan, and San Mateo in the Philippines and Zibo and Tianjin in China; landbanking; and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-com and Conrad Hotel Manila.

*Land and Development* slightly increased by 3.8% to P26.6 billion from P25.7 billion in 2013 due mainly to reclassification of certain *Land and Development* project costs from noncurrent to current.

*Deferred Tax Assets* slightly increased by 3.7% to P2.3 billion from P2.2 billion in 2013 due to higher NOLCO from *SM Prime*.

*Other Noncurrent Assets* increased by 8.6% to P33.9 billion from P31.2 billion in 2013. The increase mainly represents additional *Land use rights*, *Deposits and advance rentals* and *Deferred input VAT* partly offset by the decrease in *Advances for project development* and *Receivable from real estate buyers*.

#### *Current Liabilities*

*Current Liabilities* decreased by 25.9% to P110.3 billion from P148.8 billion in 2013 due mainly to net payments in 2014.

*Bank Loans* decreased by 48.4% to P14.4 billion from P27.9 billion in 2013.

*Current Portion of Long-term Debt* decreased by 69.1% to P10.7 billion from P34.6 billion in 2013.

*Dividends Payable* decreased by 27.5% to P3.7 billion from P5.1 billion in 2013. This mainly represents dividends due to minority stockholders of certain subsidiaries.

*Income Tax Payable* remained at P1.9 billion in 2014 and 2013.

#### *Noncurrent Liabilities*

*Noncurrent Liabilities* increased by 34.0% to P264.2 billion from P197.2 billion in 2013.

*Long-term Debt - Net of Current Portion* increased by 35.0% to P237.1 billion from P175.6 billion in 2013 due mainly to SMIC and SMPHI's bond issuances and loan availments in 2014 obtained to fund capital expenditures and for working capital requirements.

*Tenants' Deposits and Others* increased by 31.0% to P19.2 billion from P14.5 billion in 2013. The increase is coming mainly from *SM Prime* and the *Net Group* relating to their leasable spaces.

*Deferred Tax Liabilities* increased by 13.5% to P7.9 billion from P7.0 billion in 2013 resulting from the finalization of the fair values of properties of a subsidiary acquired in 2013.

*Noncurrent Derivative Liability* decreased by 63.3% to P58.7 million from P160.0 million in 2013 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

### Equity

Total *Equity* increased by 16.5% to P351.2 billion from P301.6 billion in 2013.

*Equity Attributable to Owners of the Parent* increased by 17.2% to P252.2 billion from P215.2 billion in 2013. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 24.5% to P72.0 billion from P57.8 billion in 2013 due mainly to the recognition of *Equity Reserve* arising from the US\$400 million top-up placement of SM Prime in November 2014 (b) *Net Unrealized Gain on AFS Investments* which increased by 39.1% to P10.2 billion from P7.3 billion in 2013 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Remeasurement Gain (Loss) on Defined Benefit Asset/Obligation* which decreased by P0.1 billion as a result of valuation of the Group's retirement plan. These are partially offset by the 29.7% decrease in *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso from P1.2 billion to P0.9 billion in 2014.

*Non-controlling Interests* increased by 14.7% to P99.1 billion from P86.4 billion in 2013 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

## Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2014 and 2013:

| Accounts                               | 12 / 31/ 2014 | 12 / 31/ 2013 |
|----------------------------------------|---------------|---------------|
| Current Ratio                          | 1.8           | 1.2           |
| Asset to Equity                        | 2.1           | 2.1           |
| Debt-equity Ratios:                    |               |               |
| On Gross Basis                         | 51 : 49       | 53 : 47       |
| On Net Basis                           | 34 : 66       | 37 : 63       |
| Revenue Growth                         | 7.6%          | - *           |
| Net Margin                             | 13.4%         | 13.9%         |
| Net Income Growth                      | 5.5%          | - *           |
| Return on Equity                       | 12.1%         | - *           |
| EBITDA ( <i>In Billions of Pesos</i> ) | P67.6B        | P63.5B        |
| Interest Cover                         | 5.7x          | 5.7x          |

*Current Ratio* improved to 1.8 from 1.2 in 2013 due mainly to increase in *Current Assets* of 10.2% coupled with a decrease in *Current Liabilities* of 25.9%.

Asset to equity ratio remained at 2.1 in 2014 and 2013.

Gross debt-equity ratio improved to 51:49 from 53:47 in 2013 due to lower increase in gross debt of 10.1% from P238.1 billion to P262.2 billion in 2014 compared to a 17.2% increase in equity base from P215.2 billion to P252.2 billion in 2014.

Net debt-equity ratio improved to 34:66 from 37:63 in 2013 due to lower increase in net debt of 0.5% from P126.9 billion to P127.5 billion in 2014.

EBITDA increased by 6.5% to P67.6 billion from P63.5 billion in 2013.

Interest Cover remained at 5.7x in 2014 and 2013.

\* No available restated figures for 2012

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

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

## **Expansion Plans / Prospects for the Future**

### **Malls**

In 2015, SM Prime will open four new malls located in Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as expansion of SM City Iloilo and SM City Lipa. By yearend, SM Prime will have 53 malls in the Philippines and 6 in China with an estimated 7.8 million square meters of gross floor area.

### **Residential**

In 2015, SMDC plans to launch over 5 new projects and 6 expansions of existing towers in Metro Manila and in Tagaytay that will yield around 20,000 additional condominium units.

### **Commercial**

SM Prime is currently constructing Three E-com Center scheduled for opening in 2016. Five E-com Center is targeted for completion in the first quarter of 2015.

### **Hotels and Convention Centers**

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

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

The Retail Group will be opening 3 department stores, 3 supermarkets, 17 SaveMore stores, 2 hypermarkets and 148 Specialty stores.

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

#### **A.iv Brief Description of the General Nature and Scope of the Company's Business, Its Subsidiaries and Associates**

**SM Investments Corporation (SMIC)**, is the holding company of the SM Group of Companies. For management purposes, the Group is organized into business units based on their products and services. As a result of the Property Group corporate restructuring in 2013, the Group changed the presentation of its segment information and has identified three reportable operating segments as follows: property, retail, and financial services and others.

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

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

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

SMIC was incorporated in the Philippines on 15 January 1960 with its registered office at 10<sup>th</sup> Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City, Philippines.

#### **Retail**

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

SM Retail organizes its retail and merchandising operations broadly into two categories: non-food and food. Non-food retail operations consist of the business of "The SM Store", formerly called SM Department Stores. Food retail operations comprise the SM Supermarkets, SaveMore, SM Hypermarkets, and Waltermart stores.

#### **Non-Food**

**"The SM Store"** signifies the business' commitment to being the fashion store for all amid rapidly changing fashion trends, highly competitive local and global labels and increased purchasing power. In line with its rebranding, the business continues to roll out new store designs and layouts to accommodate more brands and deliver an enhanced shopping experience. An institution that has become part of the lives of many Filipinos, it serves millions of customers through its fifty seven (57) stores across the country.

These fifty three (57) stores are strategically located in Metro Manila and key provincial cities, making it possible for the SM brand to be available to a wide customer base. Five (5) stores, Makati, Cubao, Quiapo, Harrison, and Delgado, are standalone stores while the fifty-two (52) stores are based inside the SM Supermalls.

In 2016, four (4) new stores were opened in San Jose, Bulacan; Trece Martires, Cavite; Bacoar City, Cavite; and East Ortigas. These new stores contributed an additional 23,983 sq. m., bringing the net selling area of the fifty-seven (57) stores to 499,924 sq. m.

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.

### **Specialty Stores**

Early in 2016, SM Retail merged with several leading specialty retail stores with over 1,400 outlets. The merger received final approval from the Securities and Exchange Commission on July 7, 2016. The combined entity will have a diverse portfolio of household appliances, DIY, furniture, apparel, footwear, pharmaceuticals/cosmetics and specialty retailing stores.

The related companies operate leading local retail chains including Ace Hardware, SM Appliances, Homeworld, Our Home, Toy Kingdom, Watsons, Kultura, Baby Company, Sports Central, Pet Express and other specialty stores. Together they operate 1,556 outlets as of December 31, 2016.

### **Food**

#### **SM Supermarkets, SaveMore and SM Hypermarkets**

As of December 31, 2016, there are forty-eight (48) *SM Supermarkets*, one hundred fifty-six (156) *SaveMore* stores and forty-four (44) *SM Hypermarkets*.

SM Supermarket stores are located within the malls. SaveMore stores, on the other hand, are not limited to malls but serve as modernized neighbourhood or community stores. SM Hypermarkets, the largest store format, provides wholesaling options with the widest variety of items for varying customer needs.

In 2016, three (3) supermarkets were opened in San Jose, Del Monte; Trece Martires, Cavite; and East Ortigas.

In 2016, twenty-two (22) Savemore branches were opened in Tumauni 2; GMA Portal Cavite; Cedar Peak Baguio; Bambang; Green Residences, City Mall Kalibo; DDC Paliparan; City Mall Tiaong; Paseo Reale; Cauayan Isabela; City Mall Ilagan 3; Concepcion Tarlac; City Mall Parola; Bagbaguin; Sta. Barbara; Cotabato City; Laoag 2; Jaen Nueva Ecija; Mandalagan; One Mall; EPZA Gen Trias; and Alapan.

In 2016, one (1) hypermarket was opened. This is located in Handumanan.

The net selling area of the two hundred forty-eight (248) stores is 624,696 sq. m.

For 2017, the Food Group plans to open new 20 stores. Expansion plans for 2017 include the opening of two (2) supermarkets, fifteen (15) Savemore branches and three (3) hypermarkets.

### **Walter Mart Supermarket, Inc. (WSI)**

WSI is mainly engaged in the business of supermarket retailing, was registered with the SEC in January 1994.

It opened eight (7) new stores in 2016 bringing the total number of stores to thirty-nine (39) as of December 31, 2016. It plans to grow its store network by at least seven (7) stores annually.

### **Property**

**SM Prime Holdings, Inc. (“SM Prime”)**, is the country’s leading shopping mall developer and operator. In 2013, the Sy family initiated a corporate restructuring exercise to consolidate all of the SM Group’s real estate subsidiaries and real estate assets under SM Prime. The reorganization was approved by the Board of Directors of SM Prime on May 31, 2013. The reorganization was achieved through (1) SM Land’s tender offers for SM Development Corporation (SMDC) and Highlands Prime, Inc. (HPI), (2) Merger of SM Prime and SM Land, and (3) Acquisition of Unlisted Real Estate Companies and Assets from SMIC and the Sy Family.

### **Malls**

SM Prime’s mall business unit 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. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The mall business unit currently has sixty malls in the Philippines with 7.7 million square meters (sq. m.) of gross floor area and seven shopping malls in China with 1.3 million sq. m. of gross floor area.

In 2016, SM Prime’s mall business unit opened four malls in the Philippines and one mall in China, namely, SM City San Jose Del Monte in Bulacan, SM City Trece Martires in Cavite, SM City East Ortigas, SM Cherry Congressional and SM Tianjin. The new malls added 612,000 sq. m. to the mall business unit’s total gross floor area. For 2017, the Company’s mall business unit is set to open at least four new malls. By yearend 2017, the mall business unit will have an estimated 9.3 million square meters of gross floor area.

### **Residential**

SM Prime’s revenue from residential operations is derived largely from the sale of condominium units. As of December 31, 2016, residential business unit has twenty seven residential projects in the market, twenty six of which are in Metro Manila and one in Tagaytay. For the year 2017, SM Prime’s residential business unit will be launching approximately 15,000 to 18,000 residential units. These projects will be situated in various areas located in Metro Manila (Parañaque, Makati, Pasay, Quezon City) and Provincial (Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, Bulacan, Tagaytay). This is a combination of new projects and expansion of existing projects

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

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

## **Commercial**

SM Prime's commercial business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila, as well as the operations and management of such buildings and other 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 Complex. A major attraction in the complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as SM Prime's signature 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 and Quezon City.

As of December 31, 2016, SM Prime's commercial business unit has six office buildings with an estimated gross floor area of 371,000 square meters. Currently, Three E-Com and Four E-com Centers are under construction, scheduled for opening in 2017 and 2020, respectively.

## **Hotels and Convention Centers**

SM Prime's hotels and convention centers business unit develops and manages the various hotel and convention center properties of the Company. In 2016, SM Prime's hotels and convention centers business unit opened Conrad Manila in Pasay City and Sky Hall in SM Seaside City Cebu. As of December 31, 2016, the hotels and convention centers business unit is composed of six hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City and Pasay City with 1,510 saleable rooms; four convention centers located in MOA Complex, SM Lanang Premier, SM Aura Premier and SM City Bacolod, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu with a total leasable space of 37,481 sq. m.

## **Financial Services**

**BDO Unibank, Inc.** ("BDO") is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including Lending (corporate, middle market, SME, and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management and Remittances in the Philippines. Through its local subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Rural Banking, Bancassurance, Insurance Brokerage and Stock Brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with more than 1,100 operating branches and over 3,500 ATMs nationwide (including One Network Bank).

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of 31 December 2016, BDO is the country's largest bank in terms of total assets, loans, deposits and trust funds under management.

**The China Banking Corporation (“China Bank”)** was incorporated on July 20, 1920 and commenced business on August 16 of the same year as the first privately owned local commercial bank in the Philippines. It resumed operations after World War II on July 23, 1945 and played a key role in the post-war reconstruction and economic recovery by providing financial support to businesses and entrepreneurs. China Bank (CHIB) was listed since the establishment of the Manila Stock Exchange in 1927 and acquired its universal banking license in 1991. The Bank initially catered mainly to the Chinese-Filipino commercial sector, but has since expanded its market scope to include the corporate as well as the retail and consumer segments. Its core banking franchise stems mainly from its 96-year history in the Philippines, a factor that has deeply entrenched the Bank within the socioeconomic fabric of the Chinese-Filipino community. The Bank serves the corporate, commercial, and consumer markets and provides a wide range of domestic and international banking services. It is one of the largest commercial banks in the country in terms of assets, loans deposits and capital.

For the fifth straight year, China Bank won PSE’s “Bell Award for Corporate Governance”, a recognition given to publicly-listed companies and trading participants that adhere to the highest standard of corporate governance. China Bank was, again, the only bank among the awardees in the publicly-listed company category, and the only company to have been recognized at all Bell Awards.

In 2016, Fitch Ratings has upgraded the Long-Term Issuer Default Rating of China Bank to ‘BB+’ from ‘BB’ and its Viability Ratings to ‘bb+’ from ‘bb’ with Stable outlook that reflected the Bank’s broadly steady asset quality, adequate capital buffers, and stable funding and liquidity profile, and was recently affirmed in their latest rating review.

### **Others**

**Belle Corporation (“Belle”)** was incorporated in 1973 as Belle Mining and Oil Exploration, Incorporated (“Belle Resources”) and, in 1976, was listed on the Philippine Stock Exchange. In 1989, Belle Resources developed a golf club named Tagaytay Highlands International Golf Club, Incorporated (“Tagaytay Highlands”), which became its initial foray into the property development sector. In 1994, Belle Resources changed its name to Belle Corporation to underscore the shift in its principal activity.

In early 2001, Belle decided to spin-off some of its property development assets. The spin-off involved the transfer of approximately 534 hectares of undeveloped land, 70 developed subdivision lots and 25 finished residential units into a newly formed subsidiary, Highlands Prime, Incorporated (“Highlands Prime”). Highlands Prime was registered with the Securities and Exchange Commission on February 15, 2001, and its shares became listed on the Philippine Stock Exchange on April 23, 2002, at which time Belle sold approximately 64% of its interest in Highlands Prime to investors. In August 2013, Belle exchanged its 809 million shares in Highlands Prime for approximately 109 million shares in SM Prime Holdings, Inc. (“SMPH”), pursuant to the tender offer with SM Land, Inc. for the shares of Highlands Prime and SM Development Corp.

On April 14, 2011, Belle acquired all the shares of Premium Leisure & Amusement, Inc. (“PLAI”) through the issuance of 2.7 billion new common shares. PLAI is a grantee by Philippine Amusement and Gaming Corporation (“PAGCOR”) of a Certificate of Affiliation and Provisional License (the “License”) to operate integrated resorts, including casinos, in the vicinity of the Bagong Nayong Pilipino Manila Bay Entertainment City (“Entertainment City” or “PAGCOR City”). PLAI’s License runs concurrent with the PAGCOR’s Congressional Franchise, which expires in 2033 unless renewed for another 25 years by the Philippine Congress. Belle started construction of the foundation and structure of the integrated resorts in 2010 on 6.2 hectares of land along the entrance of the Entertainment City. In October 2012, Belle and PLAI entered into a Cooperation Agreement with MELCO Crown Entertainment Limited and its Philippine affiliates (collectively, “MCE”). The Cooperation Agreement placed Belle as a co-licensee and the owner of the land and buildings and MCE as a co-

licensee, developer and operator of all facilities within the integrated resort, which was subsequently branded as “City of Dreams Manila”. City of Dreams Manila had its soft opening on December 14, 2014 and its Grand Launch on February 2, 2015. Belle, PLAI and MCE have fully complied with the all PAGCOR requirements under the License, as of the date of the soft opening.

**Atlas Consolidated Mining & Development Corporation (“Atlas Mining”)** is a company primarily engaged in metallic mineral exploration and mining.

It operates the Toledo copper mine in the province of Cebu through its wholly-owned subsidiary Carmen Copper Corporation (“Carmen Copper”). The Toledo copper mine is one of the Philippines' largest copper mines, thus making Carmen Copper a principal producer and exporter of copper concentrate in the country. To optimize its operations and its expanded beneficiation plant, Carmen Copper is pursuing the development and commercial distribution of marketable by-products from its copper concentrate processing such as magnetite and pyrite.

Atlas Mining also has a stake in the nickel laterite mining project of Berong Nickel Corporation (“Berong Nickel”) in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

**The Net Group** includes ten legal entities namely, 19-1 Property Holdings Inc., Crescent Park 19-1 Property Holdings Inc., 18-2 Property Holdings Inc., Crescent Park 18-2 Property Holdings Inc., 6-3 Property Holdings Inc., Crescent Park 6-3 Property Holdings Inc., 6-24 Property Holdings, Inc., Crescent Park 6-24 Property Holdings Inc., 14-678 Property Holdings Inc., and Crescent Park 14-678 Property Holdings, Inc. The portfolio assets are strategically located within the E-square Zone, the largest and only PEZA certified IT park in Bonifacio Global City.

The Portfolio consists of prime Grade A Philippine Economic Zone Authority (PEZA) registered office buildings and land. The gross lot areas is 13,300 square meters while the gross leasable area is 147,000 square meters more or less. The occupancy rate as of December 31, 2016 is at 98.87%. Its tenant base includes top tier local and multinational companies.

#### **A.v Company’s Directors and Executive Officers**

Please refer to Item 5 of the Information Statement for the discussion on the identity of each of the Company’s directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed.

#### **A.vi Market Price, Stockholder and Dividend Information**

##### **Market Information**

The Company’s shares of stock are traded in the Philippine Stock Exchange.

|                         | <b>2016</b> |             |   |            | <b>2015</b> |             |   |            |
|-------------------------|-------------|-------------|---|------------|-------------|-------------|---|------------|
| Stock Prices            |             | <u>High</u> |   | <u>Low</u> |             | <u>High</u> |   | <u>Low</u> |
| 1 <sup>st</sup> Quarter | ₱           | 663.0       | ₱ | 493.3      | ₱           | 612.1       | ₱ | 540.9      |
| 2 <sup>nd</sup> Quarter |             | 670.7       |   | 608.7      |             | 639.1       |   | 581.0      |
| 3rd Quarter             |             | 684.0       |   | 655.0      |             | 619.3       |   | 560.0      |
| 4 <sup>th</sup> Quarter |             | 700.0       |   | 608.0      |             | 597.3       |   | 540.0      |

*Note: The above market prices were revised to reflect retroactively the effect of the 50% stock dividends issued on August 18, 2016.*

As of March 13, 2017, the closing price of the Company's shares of stock is ₱645.50/share

### **Stockholder and Dividend Information**

The number of stockholders of record as of February 28, 2017 was 1,250. Capital stock issued and outstanding as of February 28, 2017 was 1,204,582,867. As of December 31, 2016, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P154.7 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

The policy of the Company is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Company has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within 30 days from the date of declaration.

The cash dividends pertaining to the 2016 earnings will be discussed and determined at the next Board Meeting on April 26, 2017.

On April 27, 2016, the BOD approved the declaration of cash dividends of 106.3% of the par value or P10.63 per share for a total amount of P8,536.5 million in favor of stockholders on record as at May 12, 2016. This was paid on May 26, 2016.

On the same date, the stockholders, which represent at least two-thirds of the outstanding capital stock of the Parent Company, approved the amendment of its articles of incorporation for the increase in its authorized capital stock as well as the declaration of 50% stock dividends.

On July 20, 2016, the SEC approved the issuance of 401,527,462 shares as stock dividends to stockholders on record as at August 3, 2016. The stock dividends were issued on August 18, 2016.

On April 29, 2015, the BOD approved the declaration of cash dividends of 106.1% of the par value or P10.61 per share for a total amount of P8,520.4 million in favor of stockholders on record as at May 14, 2015. This was paid on June 9, 2015.

On April 30, 2014, the BOD approved the declaration of cash dividends of 103.4% of the par value or P10.34 per share for a total amount of P8,233.5 million in favor of stockholders on record as at May 30, 2014. This was paid on June 26, 2014.

The top 20 stockholders as of February 28, 2017 are as follows:

|    | <b><u>Name</u></b>               | <b><u>No. of Shares Held</u></b> | <b><u>% to Total</u></b> |
|----|----------------------------------|----------------------------------|--------------------------|
| 1  | PCD Nominee Corp. (Non-Filipino) | 390,914,434                      | 32.45%                   |
| 2  | PCD Nominee Corp. (Filipino)     | 107,063,815                      | 8.89%                    |
| 3  | Hans T. Sy                       | 98,956,803                       | 8.22%                    |
| 4  | Herbert T. Sy                    | 98,940,675                       | 8.21%                    |
| 5  | Harley T. Sy                     | 87,792,438                       | 7.29%                    |
| 6  | Henry T. Sy, Jr.                 | 87,690,675                       | 7.28%                    |
| 7  | Teresita T. Sy                   | 85,628,175                       | 7.11%                    |
| 8  | Elizabeth T. Sy                  | 70,084,482                       | 5.82%                    |
| 9  | Syntrix Holdings, Inc.           | 46,875,000                       | 3.89%                    |
| 10 | Felicidad T. Sy                  | 38,595,259                       | 3.20%                    |
| 11 | Sysmart Corporation              | 28,966,752                       | 2.40%                    |
| 12 | Henry Sy Foundation, Inc.        | 22,500,000                       | 1.87%                    |
| 13 | Tansmart Holdings, Inc.          | 22,500,000                       | 1.87%                    |
| 14 | Felicidad T. Sy Foundation, Inc. | 11,250,000                       | 0.93%                    |
| 15 | Henry Sy, Sr.                    | 4,773,825                        | 0.40%                    |
| 16 | Susana Fong                      | 452,998                          | 0.04%                    |
| 17 | Value Plus, Inc.                 | 152,119                          | 0.01%                    |
| 18 | SM Prime Holdings, Inc.          | 146,104                          | 0.01%                    |
| 19 | Alberto S. Yao                   | 78,202                           | 0.01%                    |
| 20 | Belle Corporation                | 48,877                           | 0.00%                    |

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 Securities and Exchange Commission:

- (1) On June 10, 2014, SMIC issued US\$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US\$1.749 million.
- (2) On October 17, 2012, SMIC issued US\$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$2.5 million.
- (3) On February 15, 2012, SMIC issued a US\$250.0 million Convertible Bonds due on February 15, 2017. The Convertible Bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10(g) of R.A. No. 8799. The lead underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$3.125 million. The bonds were fully converted into SMIC common shares as of April 9, 2015.
- (4) On October 13, 2010, SMIC issued US\$400 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 million 6.75% bonds due 2013 and US\$500 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 Section 10 (1) of RA No. 8799. The underwriters are Citi, HSBC and BDO and the total underwriting fees and expenses amounted to

US\$1.7 million. At various dates in 2016 and 2015, SMIC retired/cancelled US\$19.2 million and US\$7.1 million bonds, respectively. The outstanding balance of the bonds amounted to US\$373.7 million.

Please refer to Note 20 of the 2016 audited consolidated financial statements for the details of the Company's fixed rate bonds.

There are no existing or planned stock options/ stock warrant offerings.

## **A.vii Corporate Governance**

### **Corporate Governance**

SMIC recognizes the vital role that the practice of good corporate governance plays in the organization and continues to strengthen its corporate governance culture to mirror the pace of its rapidly growing business. SMIC's platform of governance remains rooted in its Manual on Corporate Governance (the "Manual") and Code of Ethics (the "Code"), which adhere to the principles of good governance. The Company promotes these principles to everyone in the organization and to all of its stakeholders and continues to keep pace with global corporate governance best practices under the guidance of its Board of Directors.

SMIC's Board of Directors (the "Board") is composed of eight (8) directors, three (3) of which are Independent Directors, namely, Ms. Tomasa H. Lipana, and Messrs. Ah Doo Lim and Joseph R. Higdon. As prescribed by the company's Manual, an independent director must be independent of Management, and should not have substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. Furthermore, none of SMIC's independent directors have served the Company as a regular director, officer or employee. Independent directors are tasked to provide balance at the board-level by ensuring impartial discussions during board meetings. They also monitor the performance of Management, as well as safeguard the interests of the company's various stakeholders.

The Manual and the Code provide SMIC with the foundation needed to foster its corporate governance culture. The Manual institutionalizes the principles of good corporate governance throughout the organization. It lays down SMIC's compliance system and identifies the roles and responsibilities of the Board and Management in relation to corporate governance. The Manual also provides the policies on disclosure and transparency, the conduct of communication and training programs on corporate governance, the rights and equitable treatment of stockholders, and the protection of SMIC's stakeholders. There have been no deviations from the Manual since its adoption.

The Code reflects SMIC's mission, vision, and values and serves as a guiding principle for SMIC's directors, officers, and employees in the performance of their duties and responsibilities. Primarily, the Code regulates the relationships and treatment that directors, officers, and employees should employ when dealing with customers, investors, creditors, contractors, suppliers, regulators, the public, and the other various stakeholders of the company. To align with the Code, SMIC has adopted several supplemental policies, such as the Guidelines on Acceptance of Gifts, the Insider Trading Policy and the Policy on Accountability, Integrity and Vigilance (PAIV), to name a few. SMIC continues to keep pace with best practice in corporate governance through the continuous review and development of its policies and programs.

SMIC has been recipient to numerous awards and citations for its good governance programs and policies. The Asset, a multi-media entity that serves the Asian financial markets, has awarded SMIC with its prestigious Platinum Award for all-around excellence in management, financial performance, corporate governance, social and environmental responsibility and investor relations for six (6) consecutive years. Likewise, Corporate Governance Asia (CG Asia), a regional publication based in Hong Kong, has annually recognized SMIC as one of the best in corporate governance in the Philippines.

Through the collective efforts of its stakeholders; SMIC continues to develop its corporate governance practices to meet regional and global standards.

**A.viii Undertaking to provide without charge a copy of the Company's Annual Report**

**The Company will provide without charge a copy of the Company's Annual Report on SEC Form 17-A to its stockholders upon receipt of a written request addressed to Ms. Corazon P. Guidote, Senior Vice President for Investor Relations at 10<sup>th</sup> Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City 1300.**

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2016**

**Consolidated Financial Statements**

|                                                                                                                              |          |
|------------------------------------------------------------------------------------------------------------------------------|----------|
| A. Statement of Management's Responsibility for Financial Statements                                                         | Attached |
| B. Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to Financial Statements | Attached |
| C. Independent Auditor's Report                                                                                              | Attached |
| D. Consolidated Balance Sheets as at December 31, 2016, 2015 and 2014                                                        | Attached |
| E. Consolidated Statements of Income<br>For the years ended December 31, 2016, 2015 and 2014                                 | Attached |
| F. Consolidated Statements of Comprehensive Income<br>For the years ended December 31, 2016, 2015 and 2014                   | Attached |
| G. Consolidated Statements of Changes in Stockholders' Equity<br>For the years ended December 31, 2016, 2015 and 2014        | Attached |
| H. Consolidated Statements of Cash Flows<br>For the years ended December 31, 2016, 2015 and 2014                             | Attached |
| I. Notes to Consolidated Financial Statements                                                                                | Attached |

**Supplementary Schedules**

|                                                         |          |
|---------------------------------------------------------|----------|
| Independent Auditors' Report on Supplementary Schedules | Attached |
|---------------------------------------------------------|----------|

**SRC Annex 68-E Schedules**

|                                                                                                                                    |          |
|------------------------------------------------------------------------------------------------------------------------------------|----------|
| A. Financial Assets                                                                                                                | Attached |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties) | *        |
| C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements                   | Attached |
| D. Intangible Assets - Other Assets                                                                                                | Attached |
| E. Long-term Debt                                                                                                                  | *        |
| F. Indebtedness to Related Parties                                                                                                 | *        |
| G. Guarantees of Securities of Other Issuers                                                                                       | *        |
| H. Capital Stock                                                                                                                   | Attached |

**Additional Components**

|                                                                            |          |
|----------------------------------------------------------------------------|----------|
| Computation of Public Ownership                                            | Attached |
| Financial Ratios - Key Performance Indicators                              | Attached |
| Reconciliation of Retained Earnings Available for Dividend Declaration     | Attached |
| Conglomerate Map                                                           | Attached |
| Tabular Schedule of Effective Standards and Interpretations under the PFRS | Attached |

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

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**TERESITA T. SY**  
Vice Chairperson of the Board



**HARLEY T. SY**  
President



**JOSE T. SIO**  
Chief Financial Officer

Signed this 1<sup>st</sup> day of March 2017

REPUBLIC OF THE PHILIPPINES )  
MAKATI CITY )

**SUBSCRIBED AND SWORN** to before me this MAR 01 2017 at Makati City,  
affiants exhibiting to me their Philippine passports, as follows:

| NAMES          | PASSPORT NO. | DATE OF ISSUE     | PLACE OF ISSUE |
|----------------|--------------|-------------------|----------------|
| TERESITA T. SY | EB9786664    | December 10, 2013 | Manila         |
| HARLEY T. SY   | EC7717081    | May 16, 2016      | Manila         |
| JOSE T. SIO    | P0932366A    | November 16, 2016 | Manila         |

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PAGE No. 01  
BOOK No. x11  
SERIES OF 217

ATTY. ARTHUR A. SY  
NOTARY PUBLIC  
UNTIL DECEMBER 31 2017  
PTR NO 5912319 / 01 06 17 / MAKATI CITY  
IBP NO 548832 / 01 07 02 / PPLM  
TIN 174-674-196 ROLL NO 40024  
MCLE NO V - 0011465 / 11.02 15

**SECRETARY'S CERTIFICATE**

I, **ELMER B. SERRANO**, of legal age, Filipino and with office address at 33<sup>rd</sup> Floor, The Orient Square, F. Ortigas, Jr. Road, Ortigas Center, Pasig City, after being duly sworn in accordance with law, hereby depose and state that:

1. I am the duly elected and incumbent Corporate Secretary of **SM INVESTMENTS CORPORATION** (the "Corporation"), a corporation duly organized and existing under and by virtue of Philippine Law with principal address at 10<sup>th</sup> Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, Pasay City;

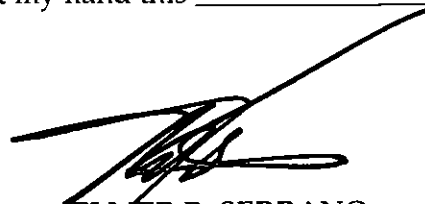
2. At the meeting of the Board of Directors of the Corporation held on April 28, 2014, at which a quorum was present, the Board unanimously adopted and duly approved the following resolutions;

"**RESOLVED**, That the Corporation's Vice-Chairperson, Teresita T. Sy-Coson, as an alternate to the Chairman, Henry Sy. Sr., be, as she is hereby, authorized and empowered to receive, sign, execute, and deliver the Corporation's Annual Reports and Statement of Management Responsibilities to any government or regulatory body;

"**RESOLVED, FINALLY**, That the Vice-Chairperson be, as she is hereby, authorized and empowered to sign, execute, deliver, receive and receipt, for and on behalf of the Corporation, any and all contracts, documents and instruments which may be required or necessary to carry out the foregoing resolution."

3. The foregoing resolutions are in accordance with the records of the Corporation in my possession and I certify that the above resolutions have not been amended nor revoked and are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand this FEB 24 2017 in Pasig City, Metro Manila.

  
**ELMER B. SERRANO**  
Corporate Secretary *m*

**SUBSCRIBED AND SWORN** to before me this FEB 24 2017 at Pasig City, affiant exhibited to me his Tax Identification No. 153-406-995.

Doc. No. 434  
Page No. 88  
Book No. 5  
Series of 2017.

  
**KRISTINE R. BANGCARON**  
Appointment No. 140 (2016-2017)  
Notary Public for Pasig City  
Until December 31, 2017  
Attorney's Roll No. 60559  
33<sup>rd</sup> Floor The Orient Square Bldg.  
F. Ortigas Jr. Road Ortigas Center Pasig City  
PTR No. 2514665; 01.04.17 Pasig City  
IBP No. 1057591; 01.05.17; RCM  
MCLE Compliance # V-0007240 Valid Until 04/14/19

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of SM Investments Corporation and Subsidiaries (the Group) as at December 31, 2016 and 2015, in accordance with Philippine Financial Reporting Standards, as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am the Accounting Manager of the Group.

Furthermore, in my compilation services for preparation of the Consolidated Financial Statements and notes to the Consolidated Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Consolidated Financial Statements and notes to the Consolidated Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

  
Crislyn N. Ariola  
Accounting Manager  
CPA Certificate No. 0124217  
valid until October 03, 2018  
BOA Accreditation No. 0238  
valid until October 03, 2019

March 1, 2017

MAR 01 2017 MAKATI CITY  
SUBSCRIBED AND SWORN to before this \_\_\_\_\_ at \_\_\_\_\_ affiants exhibiting to me her  
Taxpayer Identification Number 262-083-679.

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Book No. XI  
Series of 2017

  
ATTY. ARTHUR A. SY  
NOTARY PUBLIC  
UNTIL DECEMBER 31 2017  
PTR NO 5912319 / 01 06 17 / MAKATI CITY  
IBP NO 548832 / 01.07 02 / PPLM  
TIN 174-674-196 ROLL NO. 40024  
MCLE NO V - 0011465 / 11.02 15

# **SM Investments Corporation and Subsidiaries**

Consolidated Financial Statements  
December 31, 2016 and 2015  
and Years Ended December 31, 2016, 2015  
and 2014

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
SM Investments Corporation

### Opinion

We have audited the consolidated financial statements of SM Investments Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



### Recoverability of goodwill

As at December 31, 2016, the Group reported ₱17,306.9 million in goodwill attributable to SM Prime Holdings, Inc., Supervalu, Inc., Super Shopping Market, Inc., Net Group, Waltermart Supermarket, Inc. and others. In accordance with PFRS, the Group performs an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered a key audit matter. The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 17 to the consolidated financial statements.

### *Audit response*

We obtained an understanding of the Group's impairment assessment process and evaluated the design of relevant controls. We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and reviewed the calculations performed with reference to the similar assets or observable market prices and allowable incremental costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions such as revenue. We reviewed the key assumptions by considering the Group's history of meeting forecasts and comparing the PFI to historical operating results. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to available third party information, historical performance, cost of capital and relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

### Accounting for investments in associate companies

As at December 31, 2016, the Group's investments in associate companies amounted to ₱175,156.4 million, representing 27% and 20% of the Group's total noncurrent assets and total assets, respectively. The details of these investments are disclosed in Note 13 to the consolidated financial statements. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments are impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgment and estimates applied in determining the recoverable amount of these investments, we consider this significant to our audit.

### *Audit response*

We obtained an understanding of management's process for accounting for investments in associate companies. We obtained relevant financial information of the associate companies and recomputed the Group's share in equity in net earnings. For investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the Group's own assumptions. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We reviewed the key inputs used such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others. We also involved our internal specialist in recalculating the discount rate used that involves comparison to available third party information, historical performance, cost of capital and relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.



For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit of the relevant financial information of the associate company for purposes of the Group's consolidated financial statements. Our audit instructions detail the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the accounting for business combination and impairment of loans and receivables. We reviewed the procedures performed on the methodologies and assumptions used in determining the fair values of identifiable assets and liabilities acquired and the re-computation of the resulting gain on acquisition. For the impairment of loans and receivables, we reviewed the key inputs and assumptions underlying the impairment assessment of loans and receivables.

#### Application of pooling of interests method for a business combination under common control

In 2016, the Parent Company merged one of its subsidiaries with certain related holding entities. As disclosed in Note 5 to the consolidated financial statements, this transaction was considered as a business combination under common control, hence, was accounted for under the pooling of interests method. Management elected to restate its consolidated financial statements in the periods prior to the merger. Given the magnitude of the transaction and significant judgment involved on the assessment of common control, we consider this significant to our audit.

#### *Audit response*

We discussed with management the nature of the transaction and reviewed the relevant documents supporting the merger. We evaluated management's assessment that the merged entities remained under the same common control before and after the merger by reviewing documents such as merger documents, minutes of meetings and other documents supporting ownership structure of the merged entities. We assessed the Parent Company's consistent application of accounting policy to restate its consolidated financial statements for transactions of a similar nature. For the restatement, we reviewed the carrying values of assets and liabilities combined, the recording of capital stock issued by the surviving entity to the related holding entities' owners and the recognition of equity reserve resulting from the merger. We also reviewed the consolidation adjustments and reclassifications. We assessed the Group's disclosures detailing the merger and the accounting treatment applied per relevant accounting standards.

#### Revenue and cost recognition on sale of real estate

The Group has certain subsidiaries that derive significant portion of their revenues and costs from the sale of condominium and residential units under pre-completed construction contracts. These are accounted using the percentage-of-completion (POC) method based on the estimated completion of a physical proportion of the contract work. The assessment of the physical stage of completion and the assessment of the total estimated costs require technical determination by management's specialists. For each buyer's contract, the subsidiaries requires a certain payment milestone to be met as one of the criteria to initiate revenue and cost recognition. This payment milestone is the level of the buyer's payment over the total selling price (buyer's equity) that management assessed is probable that economic benefits will flow to the subsidiaries because of the buyer's continuing commitment with the sales agreement. The assessments of the stage of completion, total estimated costs and level of buyer's equity involve significant management judgment as disclosed in Note 4 to the consolidated financial statements.



*Audit response*

We obtained an understanding of the processes for determining the POC, and for determining and updating the total estimated costs. We also performed tests of the relevant controls over these processes. In addition, we involved our IT specialist in testing IT general controls surrounding major IT applications and critical interfaces over cash receipts and revenue and cost recognition. On a sampling basis, we agreed buyer's data including, among others, the selling price and payment terms with the supporting contract to sell agreement. We obtained the certified POC reports and assessed the competence and objectivity of the external (third party) project managers that prepared them by referring to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports. We also obtained the approved total estimated costs for selected projects and any revisions thereto. Furthermore, we obtained supporting documents such as project authorization order for the total estimated costs and budget supplement, change orders and budget transfer for the revisions. We likewise performed test computations of revenue and cost recognized for selected projects. We also evaluated the reasonableness of management's basis of the buyer's equity by comparing it to the historical analysis of sales collections from the buyers.

Existence and completeness of merchandise inventories

As at December 31, 2016, the Group's merchandise inventories amounted to ₱25,825.3 million, representing 12% and 3% of the Group's total current assets and total assets, respectively. These are disclosed in Note 23 of the consolidated financial statements. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

*Audit response*

We obtained an understanding of the Group's inventory process and performed test of controls for selected stores and warehouses. We visited selected warehouses and stores and observed the physical inventory counts. We performed test counts and compared the results to the Group's inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We reviewed the reconciliations performed by management and tested the reconciling items. We performed testing on a sample basis the Group's rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

We also reviewed the working papers of the component auditor on merchandise inventories, specifically on the observation and testing of physical inventory counts, testing of compilation procedures and the reconciliation of the physical inventory count to the general ledger and financial reports.



## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

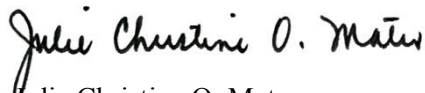
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-2 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908742, January 3, 2017, Makati City

March 1, 2017



# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

|                                                                      | December 31,<br>2016 | December 31,<br>2015<br>(As restated -<br>Note 5) | January 1,<br>2015<br>(As restated -<br>Note 5) |
|----------------------------------------------------------------------|----------------------|---------------------------------------------------|-------------------------------------------------|
| <b>ASSETS</b>                                                        |                      |                                                   |                                                 |
| <b>Current Assets</b>                                                |                      |                                                   |                                                 |
| Cash and cash equivalents (Notes 7 and 29)                           | ₱74,947,731          | ₱58,282,731                                       | ₱73,369,637                                     |
| Time deposits (Notes 8 and 29)                                       | 24,473,541           | 9,611,405                                         | 9,000,324                                       |
| Investments held for trading and sale (Notes 9, 12 and 29)           | 3,456,752            | 1,100,915                                         | 4,190,449                                       |
| Receivables (Notes 10, 29 and 30)                                    | 31,346,702           | 31,559,542                                        | 30,939,207                                      |
| Merchandise inventories - at cost (Note 23)                          | 25,825,290           | 21,589,701                                        | 19,444,961                                      |
| Other current assets (Notes 11 and 29)                               | 59,044,139           | 52,004,810                                        | 56,865,571                                      |
| Total Current Assets                                                 | 219,094,155          | 174,149,104                                       | 193,810,149                                     |
| <b>Noncurrent Assets</b>                                             |                      |                                                   |                                                 |
| Available-for-sale investments (Notes 12 and 29)                     | 18,675,233           | 21,168,893                                        | 19,150,245                                      |
| Investments in associate companies and joint ventures<br>(Note 13)   | 181,228,512          | 170,617,154                                       | 145,992,224                                     |
| Time deposits (Notes 8 and 29)                                       | 42,041,227           | 53,127,769                                        | 47,579,390                                      |
| Property and equipment (Note 14)                                     | 20,950,217           | 20,637,481                                        | 21,060,358                                      |
| Investment properties (Note 15)                                      | 270,146,508          | 249,583,502                                       | 211,888,427                                     |
| Land and development (Note 16)                                       | 23,825,558           | 27,386,708                                        | 26,629,864                                      |
| Intangibles (Note 17)                                                | 25,711,767           | 25,835,651                                        | 23,431,633                                      |
| Deferred tax assets (Note 27)                                        | 2,527,745            | 2,619,924                                         | 2,323,335                                       |
| Other noncurrent assets (Notes 17 and 29)                            | 57,261,459           | 40,366,229                                        | 33,883,982                                      |
| Total Noncurrent Assets                                              | 642,368,226          | 611,343,311                                       | 531,939,458                                     |
|                                                                      | ₱861,462,381         | ₱785,492,415                                      | ₱725,749,607                                    |
| <b>LIABILITIES AND EQUITY</b>                                        |                      |                                                   |                                                 |
| <b>Current Liabilities</b>                                           |                      |                                                   |                                                 |
| Bank loans (Notes 18, 22 and 29)                                     | ₱13,987,765          | ₱10,495,215                                       | ₱14,397,641                                     |
| Accounts payable and other current liabilities<br>(Notes 19 and 29)  | 89,259,033           | 85,271,945                                        | 79,587,269                                      |
| Income tax payable                                                   | 2,683,715            | 2,464,343                                         | 1,928,762                                       |
| Current portion of long-term debt<br>(Notes 20, 22, 29 and 30)       | 25,601,582           | 25,994,800                                        | 10,669,108                                      |
| Dividends payable (Note 29)                                          | 3,302,828            | 2,573,029                                         | 3,674,744                                       |
| Total Current Liabilities                                            | 134,834,923          | 126,799,332                                       | 110,257,524                                     |
| <b>Noncurrent Liabilities</b>                                        |                      |                                                   |                                                 |
| Long-term debt - net of current portion<br>(Notes 20, 22, 29 and 30) | 280,254,227          | 245,167,269                                       | 237,113,555                                     |
| Deferred tax liabilities (Note 27)                                   | 7,888,395            | 8,557,962                                         | 7,910,303                                       |
| Tenants' deposits and others (Notes 26, 28, 29 and 30)               | 23,737,574           | 20,979,992                                        | 19,207,989                                      |
| Total Noncurrent Liabilities                                         | 311,880,196          | 274,705,223                                       | 264,231,847                                     |
| Total Liabilities                                                    | 446,715,119          | 401,504,555                                       | 374,489,371                                     |

(Forward)



|                                                                             | December 31,<br>2016 | December 31,<br>2015<br>(As restated -<br>Note 5) | January 1,<br>2015<br>(As restated -<br>Note 5) |
|-----------------------------------------------------------------------------|----------------------|---------------------------------------------------|-------------------------------------------------|
| <b>Equity Attributable to Owners of the Parent</b>                          |                      |                                                   |                                                 |
| Capital stock (Note 21)                                                     | <b>₱12,045,829</b>   | ₱8,030,554                                        | ₱7,963,406                                      |
| Additional paid-in capital (Note 21)                                        | <b>76,347,229</b>    | 76,399,625                                        | 71,952,082                                      |
| Equity adjustments from common control transactions<br>(Note 21)            | <b>(5,424,455)</b>   | (5,338,948)                                       | (5,367,433)                                     |
| Cost of Parent common shares held by subsidiaries                           | <b>(25,386)</b>      | (25,386)                                          | (25,386)                                        |
| Cumulative translation adjustment                                           | <b>1,216,718</b>     | 1,057,751                                         | 866,360                                         |
| Net unrealized gain on available-for-sale investments<br>(Notes 12 and 13)  | <b>10,780,430</b>    | 12,724,360                                        | 10,207,259                                      |
| Re-measurement gain (loss) on defined benefit<br>asset/obligation (Note 26) | <b>34,895</b>        | 242,740                                           | (30,183)                                        |
| Retained earnings (Note 21):                                                |                      |                                                   |                                                 |
| Appropriated                                                                | <b>36,000,000</b>    | 36,000,000                                        | 27,000,000                                      |
| Unappropriated                                                              | <b>169,508,122</b>   | 150,940,847                                       | 139,596,096                                     |
| Total Equity Attributable to Owners of the Parent                           | <b>300,483,382</b>   | 280,031,543                                       | 252,162,201                                     |
| <b>Non-controlling Interests</b>                                            | <b>114,263,880</b>   | 103,956,317                                       | 99,098,035                                      |
| Total Equity                                                                | <b>414,747,262</b>   | 383,987,860                                       | 351,260,236                                     |
|                                                                             | <b>₱861,462,381</b>  | ₱785,492,415                                      | ₱725,749,607                                    |

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 |                                   |                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|
|                                                                                                                                           | 2016                    | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
| <b>REVENUE</b>                                                                                                                            |                         |                                   |                                   |
| Sales:                                                                                                                                    |                         |                                   |                                   |
| Merchandise                                                                                                                               | ₱269,272,716            | ₱248,072,800                      | ₱230,943,381                      |
| Real estate                                                                                                                               | 25,131,499              | 22,529,384                        | 22,629,335                        |
| Rent (Notes 15, 22 and 28)                                                                                                                | 37,537,947              | 33,456,963                        | 30,404,826                        |
| Equity in net earnings of associate companies and joint ventures<br>(Note 13)                                                             | 14,979,645              | 14,305,879                        | 13,411,795                        |
| Cinema ticket sales, amusement and others                                                                                                 | 6,528,516               | 6,427,592                         | 5,771,528                         |
| Management and service fees (Note 22)                                                                                                     | 2,920,635               | 2,700,386                         | 2,176,919                         |
| Dividend income (Note 22)                                                                                                                 | 167,884                 | 274,977                           | 84,571                            |
| Gain (loss) on sale of available-for-sale investments and fair<br>value changes on investments held for trading - net<br>(Notes 9 and 12) | 6,517                   | (5,417)                           | 48,493                            |
| Others                                                                                                                                    | 6,285,874               | 5,046,243                         | 4,600,604                         |
|                                                                                                                                           | <b>362,831,233</b>      | <b>332,808,807</b>                | <b>310,071,452</b>                |
| <b>COST AND EXPENSES</b>                                                                                                                  |                         |                                   |                                   |
| Cost of sales:                                                                                                                            |                         |                                   |                                   |
| Merchandise (Note 23)                                                                                                                     | 200,852,579             | 185,436,953                       | 171,628,114                       |
| Real estate (Note 16)                                                                                                                     | 13,196,518              | 12,238,872                        | 12,529,076                        |
| Selling, general and administrative expenses (Note 24)                                                                                    | 81,843,265              | 73,585,681                        | 69,691,433                        |
|                                                                                                                                           | <b>295,892,362</b>      | <b>271,261,506</b>                | <b>253,848,623</b>                |
| <b>OTHER INCOME (CHARGES)</b>                                                                                                             |                         |                                   |                                   |
| Interest expense (Notes 22 and 25)                                                                                                        | (11,751,939)            | (10,474,954)                      | (11,910,293)                      |
| Interest income (Notes 22 and 25)                                                                                                         | 3,725,517               | 3,215,016                         | 3,096,691                         |
| Gain (loss) on disposal of investment and properties - net                                                                                | 559,041                 | (51,147)                          | 2,879,746                         |
| Gain (loss) on fair value changes on derivatives - net (Note 30)                                                                          | 15,232                  | (103,991)                         | (189,554)                         |
| Foreign exchange gain (loss) - net (Note 29)                                                                                              | (170,130)               | 240,777                           | 179,080                           |
|                                                                                                                                           | <b>(7,622,279)</b>      | <b>(7,174,299)</b>                | <b>(5,944,330)</b>                |
| <b>INCOME BEFORE INCOME TAX</b>                                                                                                           | <b>59,316,592</b>       | <b>54,373,002</b>                 | <b>50,278,499</b>                 |
| <b>PROVISION FOR (BENEFIT FROM)</b>                                                                                                       |                         |                                   |                                   |
| <b>INCOME TAX</b> (Note 27)                                                                                                               |                         |                                   |                                   |
| Current                                                                                                                                   | 11,636,884              | 10,645,158                        | 8,894,454                         |
| Deferred                                                                                                                                  | (78,620)                | 70,926                            | (159,896)                         |
|                                                                                                                                           | <b>11,558,264</b>       | <b>10,716,084</b>                 | <b>8,734,558</b>                  |
| <b>NET INCOME</b>                                                                                                                         | <b>₱47,758,328</b>      | <b>₱43,656,918</b>                | <b>₱41,543,941</b>                |
| <b>Attributable to</b>                                                                                                                    |                         |                                   |                                   |
| Owners of the Parent (Note 31)                                                                                                            | ₱31,204,304             | ₱28,865,157                       | ₱28,385,190                       |
| Non-controlling interests                                                                                                                 | 16,554,024              | 14,791,761                        | 13,158,751                        |
|                                                                                                                                           | <b>₱47,758,328</b>      | <b>₱43,656,918</b>                | <b>₱41,543,941</b>                |
| <b>Basic/Diluted Earnings Per Common Share</b>                                                                                            |                         |                                   |                                   |
| Attributable to Owners of the Parent (Note 31)                                                                                            | <b>₱25.90</b>           | <b>₱24.07</b>                     | <b>₱23.70</b>                     |

See accompanying Notes to Consolidated Financial Statements.



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

|                                                                                                 | Years Ended December 31 |                                   |                                   |
|-------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|
|                                                                                                 | 2016                    | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
| <b>NET INCOME</b>                                                                               | <b>₱47,758,328</b>      | <b>₱43,656,918</b>                | <b>₱41,543,941</b>                |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                                        |                         |                                   |                                   |
| <b>Items that will be reclassified to profit or loss in subsequent periods</b>                  |                         |                                   |                                   |
| Net unrealized gain (loss) on available-for-sale investments                                    | (1,021,689)             | 851,446                           | 5,298,560                         |
| Share in unrealized gain (loss) on available-for-sale investments of associates - net (Note 13) | (1,396,835)             | (1,773,250)                       | 435,121                           |
| Cumulative translation adjustment                                                               | 549,896                 | 364,928                           | (720,937)                         |
| Income tax relating to items to be reclassified to profit or loss in subsequent periods         | 373,597                 | (170,469)                         | (942,663)                         |
|                                                                                                 | (1,495,031)             | (727,345)                         | 4,070,081                         |
| <b>Items not to be reclassified to profit or loss in subsequent periods</b>                     |                         |                                   |                                   |
| Re-measurement gain (loss) on defined benefit obligation (Note 26)                              | (417,238)               | 365,586                           | 242,518                           |
| Income tax relating to items not to be reclassified to profit or loss in subsequent periods     | 125,171                 | (109,675)                         | (72,755)                          |
|                                                                                                 | (292,067)               | 255,911                           | 169,763                           |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                               | <b>₱45,971,230</b>      | <b>₱43,185,484</b>                | <b>₱45,783,785</b>                |
| <b>Attributable to</b>                                                                          |                         |                                   |                                   |
| Owners of the Parent                                                                            | ₱29,205,704             | ₱31,846,572                       | ₱31,034,520                       |
| Non-controlling interests                                                                       | 16,765,526              | 11,338,912                        | 14,749,265                        |
|                                                                                                 | <b>₱45,971,230</b>      | <b>₱43,185,484</b>                | <b>₱45,783,785</b>                |

*See accompanying Notes to Consolidated Financial Statements.*



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 and 2014**  
**(Amounts in Thousands Except Per Share Data)**

|                                                        | Equity Attributable to Owners of the Parent |                            |                                                     |                                                   |                                   |                                                              |                                                                |                                |                                  |              | Non-controlling Interests | Total Equity |
|--------------------------------------------------------|---------------------------------------------|----------------------------|-----------------------------------------------------|---------------------------------------------------|-----------------------------------|--------------------------------------------------------------|----------------------------------------------------------------|--------------------------------|----------------------------------|--------------|---------------------------|--------------|
|                                                        | Capital Stock                               | Additional Paid-in Capital | Equity Adjustments from Common Control Transactions | Cost of Parent Common Shares Held by Subsidiaries | Cumulative Translation Adjustment | Net Unrealized Gain (Loss) on Available-for-Sale Investments | Re-measurement Gain (Loss) on Defined Benefit Asset/Obligation | Appropriated Retained Earnings | Unappropriated Retained Earnings | Total        |                           |              |
| As at January 1, 2016, as previously reported          | ₱8,030,554                                  | ₱76,399,625                | (₱1,902,024)                                        | (₱25,386)                                         | ₱1,057,751                        | ₱12,724,360                                                  | ₱117,738                                                       | ₱36,000,000                    | ₱152,004,710                     | ₱284,407,328 | ₱97,291,958               | ₱381,699,286 |
| Effect of merger (Note 5)                              | —                                           | —                          | (3,436,924)                                         | —                                                 | —                                 | —                                                            | 125,002                                                        | —                              | (1,063,863)                      | (4,375,785)  | 6,664,359                 | 2,288,574    |
| As restated                                            | 8,030,554                                   | 76,399,625                 | (5,338,948)                                         | (25,386)                                          | 1,057,751                         | 12,724,360                                                   | 242,740                                                        | 36,000,000                     | 150,940,847                      | 280,031,543  | 103,956,317               | 383,987,860  |
| Effect of common control business combination (Note 5) | —                                           | —                          | 120,078                                             | —                                                 | —                                 | —                                                            | 5,792                                                          | —                              | (85,287)                         | 40,583       | 79,451                    | 120,034      |
| As adjusted                                            | 8,030,554                                   | 76,399,625                 | (5,218,870)                                         | (25,386)                                          | 1,057,751                         | 12,724,360                                                   | 248,532                                                        | 36,000,000                     | 150,855,560                      | 280,072,126  | 104,035,768               | 384,107,894  |
| Net income                                             | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | 31,204,304                       | 31,204,304   | 16,554,024                | 47,758,328   |
| Other comprehensive income                             | —                                           | —                          | —                                                   | —                                                 | 158,967                           | (1,943,930)                                                  | (213,637)                                                      | —                              | —                                | (1,998,600)  | 211,502                   | (1,787,098)  |
| Total comprehensive income                             | —                                           | —                          | —                                                   | —                                                 | 158,967                           | (1,943,930)                                                  | (213,637)                                                      | —                              | 31,204,304                       | 29,205,704   | 16,765,526                | 45,971,230   |
| Common control transactions                            | —                                           | —                          | (205,585)                                           | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | (205,585)    | —                         | (205,585)    |
| Stock dividends - 50% (Note 21)                        | 4,015,275                                   | (52,396)                   | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | (4,015,275)                      | (52,396)     | —                         | (52,396)     |
| Cash dividends - ₱10.63 per share (Note 21)            | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | (8,536,467)                      | (8,536,467)  | —                         | (8,536,467)  |
| Cash dividends received by non-controlling interests   | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | —            | (6,358,868)               | (6,358,868)  |
| Decrease in previous year's non-controlling interests  | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | —            | (178,546)                 | (178,546)    |
| As at December 31, 2016                                | ₱12,045,829                                 | ₱76,347,229                | (₱5,424,455)                                        | (₱25,386)                                         | ₱1,216,718                        | ₱10,780,430                                                  | ₱34,895                                                        | ₱36,000,000                    | ₱169,508,122                     | ₱300,483,382 | ₱114,263,880              | ₱414,747,262 |
| As at January 1, 2015, as previously reported          | ₱7,963,406                                  | ₱71,952,082                | (₱1,902,933)                                        | (₱25,386)                                         | ₱866,360                          | ₱10,207,259                                                  | (₱126,530)                                                     | ₱27,000,000                    | ₱141,069,856                     | ₱257,004,114 | ₱92,944,295               | ₱349,948,409 |
| Effect of merger (Note 5)                              | —                                           | —                          | (3,464,500)                                         | —                                                 | —                                 | —                                                            | 96,347                                                         | —                              | (1,473,760)                      | (4,841,913)  | 6,153,740                 | 1,311,827    |
| As restated                                            | 7,963,406                                   | 71,952,082                 | (5,367,433)                                         | (25,386)                                          | 866,360                           | 10,207,259                                                   | (30,183)                                                       | 27,000,000                     | 139,596,096                      | 252,162,201  | 99,098,035                | 351,260,236  |
| Net income                                             | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | 28,865,157                       | 28,865,157   | 14,791,761                | 43,656,918   |
| Other comprehensive income                             | —                                           | —                          | —                                                   | —                                                 | 191,391                           | 2,517,101                                                    | 272,923                                                        | —                              | —                                | 2,981,415    | (3,452,849)               | (471,434)    |
| Total comprehensive income                             | —                                           | —                          | —                                                   | —                                                 | 191,391                           | 2,517,101                                                    | 272,923                                                        | —                              | 28,865,157                       | 31,846,572   | 11,338,912                | 43,185,484   |
| Common control transactions                            | —                                           | —                          | 28,485                                              | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | 28,485       | —                         | 28,485       |
| Acquisition of non-controlling interests               | —                                           | (385,538)                  | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | (385,538)    | —                         | (385,538)    |
| Reversal of appropriation (Note 21)                    | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | (18,000,000)                   | 18,000,000                       | —            | —                         | —            |
| Appropriation during the year                          | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | 27,000,000                     | (27,000,000)                     | —            | —                         | —            |
| Conversion of convertible bonds (Note 21)              | 67,148                                      | 4,833,081                  | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | 4,900,229    | —                         | 4,900,229    |
| Cash dividends - ₱10.61 per share (Note 21)            | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | (8,520,406)                      | (8,520,406)  | —                         | (8,520,406)  |
| Cash dividends received by non-controlling interests   | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | —            | (3,377,213)               | (3,377,213)  |
| Decrease in previous year's non-controlling interests  | —                                           | —                          | —                                                   | —                                                 | —                                 | —                                                            | —                                                              | —                              | —                                | —            | (3,103,417)               | (3,103,417)  |
| As at December 31, 2015 (Restated)                     | ₱8,030,554                                  | ₱76,399,625                | (₱5,338,948)                                        | (₱25,386)                                         | ₱1,057,751                        | ₱12,724,360                                                  | ₱242,740                                                       | ₱36,000,000                    | ₱150,940,847                     | ₱280,031,543 | ₱103,956,317              | ₱383,987,860 |



Equity Attributable to Owners of the Parent

|                                                                                | Capital Stock | Additional<br>Paid-in Capital | Equity<br>Adjustments<br>from Common<br>Control<br>Transactions | Cost of Parent<br>Common<br>Shares Held<br>by Subsidiaries | Cumulative<br>Translation<br>Adjustment | Net Unrealized<br>Gain on<br>Available-<br>for-Sale<br>Investments | Re-measurement<br>Gain (Loss) on<br>Defined<br>Benefit Asset/<br>Obligation | Appropriated<br>Retained<br>Earnings | Unappropriated<br>Retained<br>Earnings | Total        | Non-controlling<br>Interests | Total<br>Equity |
|--------------------------------------------------------------------------------|---------------|-------------------------------|-----------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------|----------------------------------------|--------------|------------------------------|-----------------|
| As at January 1, 2014, as previously reported                                  | ₱7,962,723    | ₱57,799,360                   | (₱2,584,210)                                                    | (₱25,386)                                                  | ₱1,233,177                              | ₱7,338,500                                                         | (₱195,074)                                                                  | ₱27,000,000                          | ₱120,904,727                           | ₱219,433,817 | ₱80,807,031                  | ₱300,240,848    |
| Effect of merger (Note 5)                                                      | —             | —                             | (2,796,350)                                                     | —                                                          | —                                       | —                                                                  | 17,503                                                                      | —                                    | (1,460,366)                            | (4,239,213)  | 5,563,147                    | 1,323,934       |
| As restated                                                                    | 7,962,723     | 57,799,360                    | (5,380,560)                                                     | (25,386)                                                   | 1,233,177                               | 7,338,500                                                          | (177,571)                                                                   | 27,000,000                           | 119,444,361                            | 215,194,604  | 86,370,178                   | 301,564,782     |
| Net income                                                                     | —             | —                             | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | 28,385,190                             | 28,385,190   | 13,158,751                   | 41,543,941      |
| Other comprehensive income                                                     | —             | —                             | —                                                               | —                                                          | (366,817)                               | 2,868,759                                                          | 147,388                                                                     | —                                    | 2,649,330                              | 2,649,330    | 1,590,514                    | 4,239,844       |
| Total comprehensive income                                                     | —             | —                             | —                                                               | —                                                          | (366,817)                               | 2,868,759                                                          | 147,388                                                                     | —                                    | 28,385,190                             | 31,034,520   | 14,749,265                   | 45,783,785      |
| Common control transactions                                                    | —             | —                             | 13,127                                                          | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | —                                      | 13,127       | —                            | 13,127          |
| Conversion of convertible bonds (Note 21)                                      | 683           | 47,194                        | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | —                                      | 47,877       | —                            | 47,877          |
| Cash dividends - ₱10.34 per share (Note 21)                                    | —             | —                             | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | (8,233,455)                            | (8,233,455)  | —                            | (8,233,455)     |
| Cash dividends received by non-controlling interests                           | —             | —                             | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | —                                      | —            | (2,245,926)                  | (2,245,926)     |
| Re-issuance by a subsidiary of treasury shares to non-controlling shareholders | —             | 14,105,528                    | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | —                                      | 14,105,528   | 3,540,159                    | 17,645,687      |
| Decrease in previous year's non-controlling interests                          | —             | —                             | —                                                               | —                                                          | —                                       | —                                                                  | —                                                                           | —                                    | —                                      | —            | (3,315,641)                  | (3,315,641)     |
| As at December 31, 2014 (Restated)                                             | ₱7,963,406    | ₱71,952,082                   | (₱5,367,433)                                                    | (₱25,386)                                                  | ₱866,360                                | ₱10,207,259                                                        | (₱30,183)                                                                   | ₱27,000,000                          | ₱139,596,096                           | ₱252,162,201 | ₱99,098,035                  | ₱351,260,236    |

See accompanying Notes to Consolidated Financial Statements.



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Amounts in Thousands)**

|                                                                                                                        | Years Ended December 31 |                                   |                                   |
|------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|
|                                                                                                                        | 2016                    | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                            |                         |                                   |                                   |
| Income before income tax                                                                                               | <b>₱59,316,592</b>      | ₱54,373,002                       | ₱50,278,499                       |
| Adjustments for:                                                                                                       |                         |                                   |                                   |
| Equity in net earnings of associate companies and joint ventures (Note 13)                                             | <b>(14,979,645)</b>     | (14,305,879)                      | (13,411,795)                      |
| Interest expense (Note 25)                                                                                             | <b>11,751,939</b>       | 10,474,954                        | 11,910,293                        |
| Depreciation and amortization (Notes 14, 15, 17 and 24)                                                                | <b>12,861,154</b>       | 11,846,356                        | 11,347,477                        |
| Interest income (Note 25)                                                                                              | <b>(3,725,517)</b>      | (3,215,016)                       | (3,096,691)                       |
| Provision for (reversal of) impairment loss (Notes 10, 13, 15 and 24)                                                  | <b>1,335,461</b>        | 478,869                           | (288,547)                         |
| Unrealized foreign exchange loss - net                                                                                 | <b>586,360</b>          | 196,389                           | 424,836                           |
| Loss (gain) on disposal of investments and properties - net (Notes 13, 14 and 15)                                      | <b>(559,041)</b>        | 51,147                            | (2,879,746)                       |
| Dividend income (Note 22)                                                                                              | <b>(167,884)</b>        | (274,977)                         | (84,571)                          |
| Loss (gain) on fair value changes on derivatives - net                                                                 | <b>(15,232)</b>         | 103,991                           | 189,554                           |
| Loss (gain) on available-for-sale investments and fair value changes on investments held for trading (Notes 12 and 30) | <b>(6,517)</b>          | 5,417                             | (48,493)                          |
| Income before working capital changes                                                                                  | <b>66,397,670</b>       | 59,734,253                        | 54,340,816                        |
| Decrease (increase) in:                                                                                                |                         |                                   |                                   |
| Receivables                                                                                                            | <b>445,821</b>          | 1,761,576                         | 671,330                           |
| Merchandise inventories                                                                                                | <b>(4,235,589)</b>      | (2,144,740)                       | (2,431,495)                       |
| Other current assets                                                                                                   | <b>3,955,218</b>        | 11,337,738                        | (481,356)                         |
| Land and development                                                                                                   | <b>(13,946,006)</b>     | (13,361,520)                      | (21,724,031)                      |
| Increase (decrease) in:                                                                                                |                         |                                   |                                   |
| Accounts payable and other current liabilities                                                                         | <b>2,178,577</b>        | 8,428,920                         | (5,766,743)                       |
| Tenants' deposits and others                                                                                           | <b>2,704,729</b>        | 2,254,274                         | 4,847,992                         |
| Net cash generated from operations                                                                                     | <b>57,500,420</b>       | 68,010,501                        | 29,456,513                        |
| Income tax paid                                                                                                        | <b>(11,415,920)</b>     | (10,109,982)                      | (8,810,042)                       |
| Net cash provided by operating activities                                                                              | <b>46,084,500</b>       | 57,900,519                        | 20,646,471                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                            |                         |                                   |                                   |
| Proceeds from sale of:                                                                                                 |                         |                                   |                                   |
| Available-for-sale and held for trading investments                                                                    | <b>1,875,091</b>        | 86,350                            | 2,250,004                         |
| Property and equipment                                                                                                 | <b>310,534</b>          | 23,324                            | 236,518                           |
| Investment properties                                                                                                  | <b>243,644</b>          | 4,964                             | 134,890                           |
| Shares of stock of associate companies                                                                                 | <b>—</b>                | —                                 | 7,448,221                         |
| Additions to:                                                                                                          |                         |                                   |                                   |
| Investment properties (Note 15)                                                                                        | <b>(26,769,270)</b>     | (44,402,988)                      | (31,129,924)                      |
| Property and equipment (Note 14)                                                                                       | <b>(5,249,198)</b>      | (5,051,999)                       | (5,028,694)                       |
| Available-for-sale and held for trading investments                                                                    | <b>(2,159,111)</b>      | (1,242,195)                       | (3,098,913)                       |
| Investments in associate companies and joint ventures (Note 13)                                                        | <b>(468,050)</b>        | (15,546,154)                      | (1,925,455)                       |
| Trademarks (Note 17)                                                                                                   | <b>—</b>                | (2,404,018)                       | —                                 |
| Decrease (increase) in:                                                                                                |                         |                                   |                                   |
| Time deposits                                                                                                          | <b>(480,639)</b>        | (3,264,204)                       | 203,989                           |
| Other noncurrent assets                                                                                                | <b>(8,285,737)</b>      | 307,618                           | 3,022,982                         |
| Dividends received                                                                                                     | <b>3,973,577</b>        | 6,150,529                         | 4,195,251                         |
| Interest received                                                                                                      | <b>3,660,063</b>        | 3,152,413                         | 3,573,136                         |
| Acquisition of non-controlling interests in a subsidiary                                                               | <b>—</b>                | (442,500)                         | —                                 |
| Net cash used in investing activities                                                                                  | <b>(33,349,096)</b>     | (62,628,860)                      | (20,117,995)                      |

(Forward)



|                                                                                   | Years Ended December 31 |                                   |                                   |
|-----------------------------------------------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|
|                                                                                   | 2016<br>(Unaudited)     | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                         |                                   |                                   |
| Availments of:                                                                    |                         |                                   |                                   |
| Long-term debt                                                                    | <b>₱62,564,105</b>      | ₱32,888,435                       | ₱84,040,740                       |
| Bank loans                                                                        | <b>20,841,800</b>       | 19,450,894                        | 11,032,833                        |
| Payments of:                                                                      |                         |                                   |                                   |
| Long-term debt                                                                    | <b>(34,560,516)</b>     | (14,241,354)                      | (47,795,955)                      |
| Bank loans                                                                        | <b>(17,385,450)</b>     | (23,385,210)                      | (24,568,200)                      |
| Dividends                                                                         | <b>(14,417,931)</b>     | (12,999,334)                      | (11,870,151)                      |
| Interest                                                                          | <b>(13,561,377)</b>     | (11,998,012)                      | (12,152,805)                      |
| Re-issuance by a subsidiary of treasury shares<br>to non-controlling shareholders | —                       | —                                 | 17,645,687                        |
| Net cash provided by (used in) financing activities                               | <b>3,480,631</b>        | (10,284,581)                      | 16,332,149                        |
| <b>NET INCREASE (DECREASE) IN CASH<br/>AND CASH EQUIVALENTS</b>                   | <b>16,216,035</b>       | (15,012,922)                      | 16,860,625                        |
| <b>EFFECT OF EXCHANGE RATE CHANGES<br/>ON CASH AND CASH EQUIVALENTS</b>           | <b>448,965</b>          | (73,984)                          | 108,303                           |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR (Note 7)</b>                | <b>58,282,731</b>       | 73,369,637                        | 56,400,709                        |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR (Note 7)</b>                      | <b>₱74,947,731</b>      | ₱58,282,731                       | ₱73,369,637                       |

*See accompanying Notes to Consolidated Financial Statements.*



# SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 Parent Company's articles of incorporation for the extension of the Parent Company's corporate life for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

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

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

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 1, 2017.

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### 2. Basis of Preparation and Statement of Compliance

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Basis of Consolidation

The Group is considered to have control over an investee, if and only if, the Group has:

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

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

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



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

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

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

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

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

| Company                                                          | Principal Activities     | Percentage of Ownership |          |        |          |
|------------------------------------------------------------------|--------------------------|-------------------------|----------|--------|----------|
|                                                                  |                          | 2016                    |          | 2015   |          |
|                                                                  |                          | Direct                  | Indirect | Direct | Indirect |
| <b>Property</b>                                                  |                          |                         |          |        |          |
| SM Prime Holdings, Inc. (SM Prime) and Subsidiaries              | Real estate development  | 50                      | –        | 50     | –        |
| SM Development Corporation (SMDC) and Subsidiaries               | Real estate development  | –                       | 100      | –      | 100      |
| Magenta Legacy, Inc.                                             | Real estate development  | –                       | 100      | –      | 100      |
| Associated Development Corporation                               | Real estate development  | –                       | 100      | –      | 100      |
| Highlands Prime, Inc. (HPI)                                      | Real estate development  | –                       | 100      | –      | 100      |
| CHAS Realty and Development Corporation (CHAS) and Subsidiaries  | Real estate development  | –                       | 100      | –      | 100      |
| Costa del Hamilo, Inc. (Costa) and Subsidiary                    | Real estate development  | –                       | 100      | –      | 100      |
| Prime Metro Estate, Inc. and Subsidiary                          | Real estate development  | –                       | 100      | –      | 100      |
| Rappel Holdings, Inc. and Subsidiaries                           | Real estate development  | –                       | 100      | –      | 100      |
| SM Arena Complex Corporation (SM Arena)                          | Conventions              | –                       | 100      | –      | 100      |
| SM Hotels and Conventions Corp. and Subsidiaries                 | Hotel and conventions    | –                       | 100      | –      | 100      |
| Tagaytay Resort Development Corporation                          | Real estate development  | –                       | 100      | –      | 100      |
| MOA Esplanade Port, Inc.                                         | Port terminal operations | –                       | 100      | –      | 100      |
| Mountain Bliss Resort and Development Corporation and Subsidiary | Real estate development  | 100                     | –        | 100    | –        |
| Intercontinental Development Corporation (ICDC)                  | Real estate development  | 97                      | 3        | 97     | 3        |
| Prime Central, Inc. and Subsidiaries                             | Real estate development  | 100                     | –        | 100    | –        |
| Bellevue Properties, Inc.                                        | Real estate development  | 62                      | –        | 62     | –        |

(Forward)



| Company                                                                                  | Principal Activities    | Percentage of Ownership |          |        |          |
|------------------------------------------------------------------------------------------|-------------------------|-------------------------|----------|--------|----------|
|                                                                                          |                         | 2016                    |          | 2015   |          |
|                                                                                          |                         | Direct                  | Indirect | Direct | Indirect |
| Net Group <sup>(a)</sup>                                                                 | Real estate development | 90                      | –        | 90     | –        |
| Nagtahan Property Holdings, Inc.<br>(formerly AD Farming)                                | Real estate development | 100                     | –        | 100    | –        |
| <b>Retail</b>                                                                            |                         |                         |          |        |          |
| SM Retail Inc. (SM Retail) and Subsidiaries                                              | Retail                  | 77                      | –        | 77     | –        |
| <b>Others</b>                                                                            |                         |                         |          |        |          |
| Primebridge Holdings, Inc. (Primebridge)                                                 | Investment              | 80                      | 20       | 80     | 20       |
| Asia Pacific Computer Technology Center, Inc.                                            | Education               | 52                      | –        | 52     | –        |
| Multi-Realty Development Corporation (MRDC)                                              | Investment              | 91                      | –        | 91     | –        |
| Henfels Investments Corp.                                                                | Investment              | 99                      | –        | 99     | –        |
| Belleshares Holdings, Inc. and Subsidiaries<br>(formerly SM Commercial Properties, Inc.) | Investment              | 59                      | 40       | 59     | 40       |
| Sto. Roberto Marketing Corp.                                                             | Investment              | 100                     | –        | 100    | –        |

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

(a) Net Group consists of 6-24 Property Holdings, Inc., 14-678 Property Holdings, Inc., 19-1 Property Holdings, Inc., 18-2 Property Holdings, Inc., 6-3 Property Holdings, Inc., Crescent Park 6-24 Property Holdings, Inc., Crescent Park 14-678 Property Holdings, Inc., Crescent Park 19-1 Property Holdings, Inc., Crescent Park 18-2 Property Holdings, Inc. and Crescent Park 6-3 Property Holdings, Inc.

#### Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2016 and 2015.

The summarized financial information of SM Prime follows:

#### *Financial Position*

|                           | December 31    |              |
|---------------------------|----------------|--------------|
|                           | 2016           | 2015         |
|                           | (In Thousands) |              |
| Current assets            | ₱103,950,556   | ₱99,130,037  |
| Noncurrent assets         | 361,609,576    | 335,836,248  |
| Total assets              | 465,560,132    | 434,966,285  |
| Current liabilities       | 49,421,276     | 70,628,579   |
| Noncurrent liabilities    | 180,775,312    | 148,494,859  |
| Total liabilities         | 230,196,588    | 219,123,438  |
| Total equity              | ₱235,363,544   | ₱215,842,847 |
| Attributable to:          |                |              |
| Owners of the Parent      | ₱231,481,032   | ₱212,488,822 |
| Non-controlling interests | 3,882,512      | 3,354,025    |
|                           | ₱235,363,544   | ₱215,842,847 |



*Statements of Income*

|                                             | Years Ended December 31 |             |             |
|---------------------------------------------|-------------------------|-------------|-------------|
|                                             | 2016                    | 2015        | 2014        |
|                                             | <i>(In Thousands)</i>   |             |             |
| Revenue                                     | <b>₱79,816,231</b>      | ₱71,511,287 | ₱66,240,070 |
| Cost and expenses                           | <b>44,551,175</b>       | 40,072,460  | 38,553,561  |
| Other income (charges)                      | <b>(4,276,379)</b>      | 3,472,012   | (4,012,373) |
| Income before income tax                    | <b>30,988,677</b>       | 34,910,839  | 23,674,136  |
| Provision for income tax                    | <b>6,621,053</b>        | 6,018,246   | 4,777,647   |
| <b>Net income</b>                           | <b>₱24,367,624</b>      | ₱28,892,593 | ₱18,896,489 |
| Attributable to:                            |                         |             |             |
| Owners of the Parent                        | <b>₱23,805,713</b>      | ₱28,302,092 | ₱18,390,352 |
| Non-controlling interests                   | <b>561,911</b>          | 590,501     | 506,137     |
|                                             | <b>24,367,624</b>       | 28,892,593  | 18,896,489  |
| Other comprehensive income (loss)           | <b>1,740,286</b>        | (8,847,601) | 5,083,311   |
| <b>Total comprehensive income</b>           | <b>₱26,107,910</b>      | ₱20,044,992 | ₱23,979,800 |
| Attributable to:                            |                         |             |             |
| Owners of the Parent                        | <b>₱25,542,289</b>      | ₱19,454,280 | ₱23,474,512 |
| Non-controlling interests                   | <b>565,621</b>          | 590,712     | 505,288     |
| <b>Total comprehensive income</b>           | <b>₱26,107,910</b>      | ₱20,044,992 | ₱23,979,800 |
| Dividends paid to non-controlling interests | <b>(₱505,291)</b>       | (₱387,200)  | (₱309,760)  |

*Cash Flows*

|                                                              | Years Ended December 31 |              |              |
|--------------------------------------------------------------|-------------------------|--------------|--------------|
|                                                              | 2016                    | 2015         | 2014         |
|                                                              | <i>(In Thousands)</i>   |              |              |
| Net cash provided by operating activities                    | <b>₱37,410,023</b>      | ₱31,938,138  | ₱6,751,379   |
| Net cash used in investing activities                        | <b>(32,999,007)</b>     | (55,230,236) | (29,388,619) |
| Net cash provided by (used in) financing activities          | <b>(5,603,997)</b>      | 14,015,494   | 30,750,446   |
| Effect of exchange rate changes on cash and cash equivalents | <b>524,055</b>          | (98,694)     | (9,506)      |
| Net increase (decrease) in cash and cash equivalents         | <b>(₱668,926)</b>       | (₱9,375,298) | ₱8,103,700   |



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

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

#### 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 and are subject to an insignificant risk of change in value.

#### Time Deposits

Time deposits (shown under current assets) are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

#### Determination of Fair Value

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

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

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

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

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

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

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

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



## Financial Instruments

### *Date of Recognition*

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

### *Initial Recognition of Financial Instruments*

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

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories:

- Financial assets and financial liabilities at FVPL
- Loans and receivables
- Held-to-maturity (HTM) investments
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

### *“Day 1” Difference*

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

### *Financial Assets and Liabilities at FVPL*

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under “Gain (loss) 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 statement of income.



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

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

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

#### *Loans and Receivables*

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

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

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

#### *AFS Investments*

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



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

#### *Other Financial Liabilities*

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

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

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

#### *Classification of Financial Instruments between Liability and Equity*

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

#### *Debt Issue Cost*

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

#### *Derivative Financial Instruments*

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



#### *Cash Flow Hedges*

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

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

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

#### *Other Derivative Instruments Not Accounted for as Hedges*

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

#### *Embedded Derivative*

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

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

Options arising from the Group’s long-term note (recorded under “Noncurrent Assets”) and convertible bonds payable are the Group’s bifurcated embedded derivatives.



### *De-recognition of Financial Assets and Liabilities*

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

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

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

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

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

### *Impairment of Financial Assets*

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

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



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

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

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

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

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



#### *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is an 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### Merchandise Inventories

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

#### Land and Development and Condominium and Residential Units for Sale

Land and development and condominium and residential units for sale are stated at the lower of cost and net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale.

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

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

#### Investments in Associate Companies and Joint Ventures

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

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

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

The Group's investments in associate companies and joint ventures are accounted for under the equity method of accounting. Under the equity method, investments in associate companies and joint ventures are carried at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.



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

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

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

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

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

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

#### Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and related interest incurred during the construction.



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

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

|                                          |                                                          |
|------------------------------------------|----------------------------------------------------------|
| Buildings and improvements               | 5–25 years                                               |
| Store equipment and improvements         | 5–10 years                                               |
| Data processing equipment                | 5–8 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,<br>whichever is shorter |
| Transportation equipment                 | 5–10 years                                               |

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

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

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

#### Investment Properties

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

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

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

|                                          |                                                       |
|------------------------------------------|-------------------------------------------------------|
| Land improvements                        | 3–5 years                                             |
| Buildings and improvements               | 10–40 years                                           |
| Building equipment, furniture and others | 3–15 years                                            |
| Building and leasehold improvements      | 5 years or term of the lease,<br>whichever is shorter |

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



Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

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

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

#### Construction in Progress

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated.

#### Tenants' Deposits

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

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

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

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

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



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

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

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

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

*Acquisitions of Non-controlling Interests.* Changes in the Parent Company’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

### Goodwill

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

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



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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

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

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

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

#### Intangible Assets

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

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

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

#### Other Noncurrent Assets

Other noncurrent assets include land use rights which are amortized over its useful life of 40–60 years.



#### Impairment of Nonfinancial Assets

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

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

#### Capital Stock

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

#### Revenue and Cost Recognition

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

*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 are net of returns and discounts.

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



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

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

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

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

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

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

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

*Rent.* Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable. Contingent rent is recognized as revenue in the period in which they are earned.

*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 Associate Companies and Joint Ventures and Available-for-Sale Investments.* Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.



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

*Management and Service Fees.* Revenue and expense are recognized when earned and incurred, respectively, in accordance with the terms of the agreements.

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

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

#### Pension Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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



#### Foreign Currency-denominated Transactions

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

#### Foreign Currency Translation

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

#### Leases

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

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

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

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

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

#### Provisions

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



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

#### Borrowing Cost

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

#### Taxes

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

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

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

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

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

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

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



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

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

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

#### Business Segments

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

#### Basic/Diluted Earnings Per Common Share (EPS)

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

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

#### Contingencies

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

#### Events after the Reporting Period

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2016. The adoption did not have any significant impact on the Group’s consolidated financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*



- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012–2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Future Changes in Accounting Policies

The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2016. Unless otherwise indicated, the Group does not expect the future adoption of the said new standards, amendments and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014–2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity



should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.



- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is assessing the impact of adopting PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014–2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. The Group is assessing the impact of these amendments to PAS 28.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's



intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. The Group is assessing the impact of these amendments to PAS 40.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group is assessing the impact of adopting IFRIC 22.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or



joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group is assessing the impact of these amendments to PFRS 10 and PAS 28.

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#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as at reporting date.

##### 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:

*Revenue Recognition on Real Estate.* The Group's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale 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.

*Property Acquisitions and Business Combinations.* At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided by the subsidiary.

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

*Consignment Arrangements on Retail Segment.* The retail segment of the Group has entered into various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, sales revenue is recognized at gross amount upon actual sales to customers. The related inventory stocks supplied under these arrangements are only payable to suppliers when actually sold.



*Operating Lease Commitments - Group as Lessor.* Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

*Operating Lease Commitments - Group as Lessee.* Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

*Assessing Significant Influence over Associates.* Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation on the board of directors, and participation in policy-making processes of the associates.

*Assessing Joint Control of an Arrangement and the Type of Arrangement.* Management assessed that the Group has joint control of WalterMart Mall by virtue of a contractual agreement with other shareholders. WalterMart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

*Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value.* Management 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 longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged decline requires judgment and includes an evaluation of price volatility. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

*Assessing of Control or Significant Influence of Investees*

*SM Prime.* Parent Company has 50% ownership interest in SM Prime. Management assessed that Parent Company has control of SM Prime as Parent Company holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving Parent Company the power to direct relevant activities of SM Prime.

*Net Group.* Management assessed that Parent Company has control of these land-holding companies as the contracting parties intend to align the voting interest in the land-holding companies to reflect the economic interest in these subsidiaries. On June 27, 2014, the Board of Directors and stockholders of the land-holding companies approved the amendment of the Articles of Incorporation to reclassify all its voting preferred shares to common shares resulting in the alignment of Parent Company's voting and economic interests. The amendment was approved by the SEC on various dates in 2015.

*BDO Unibank, Inc. (BDO).* The Group has 44% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's voting rights are not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

*Premium Leisure Corp. (PLC).* The Group has 4% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle.



### Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Revenue and Cost Recognition.* The Group's revenue from real estate and construction contracts recognized based on the POC are measured principally on the basis of the estimated completion of a physical proportion of the contract work.

*Impairment of Receivables.* The Group maintains an amount of allowance for impairment loss considered adequate to provide for potential uncollectible receivables. The allowance is evaluated on the basis of factors that affect the collectibility of the accounts including 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. See Note 10 for related balances.

*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 considers 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. See Note 12 for related balances.

*Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development.* The Group writes down merchandise inventories, condominium and residential units 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 is lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 16 and 23 for related balances.

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 the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. In 2016 and 2015, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development are higher than cost, hence, the Group did not recognize any impairment loss.

*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. See Notes 14 and 15 for related balances.

*Impairment of Investments in Associate Companies and Joint Ventures.* Impairment review of investments in associate companies and joint ventures 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. See Note 13 for related balances.

*Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives.* Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast 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. See Note 17 for related balances.

*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. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. 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 judgments 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. See Notes 14 and 15 for related balances.

*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. See Note 17 for related balances.

*Realizability of Deferred Tax Assets.* The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred 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 MCIT and 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. See Note 27 for related balances.



*Present Value of Defined Benefit Obligation.* The present value of the pension obligations depends on a number of factors including assumptions of discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the 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 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. See Note 26 for related balances.

*Fair Value of Financial Assets and Liabilities.* 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 OCI. See Note 30 for related balances.

*Contingencies.* The Group is involved in certain legal and administrative proceedings. The Group's estimate of the probable cost of resolution of these proceedings is being developed in consultation with outside legal counsel handling defense, and is based upon an analysis of potential results. The Group 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.

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## 5. Business Combination

### SM Retail Merger

On February 29, 2016, the BOD and stockholders of the Parent Company approved the merger of its subsidiary SM Retail with certain related entities namely, Forsyth Equity Holdings, Inc., HFS Corporation, Morrison Corporation, San Mateo Bros., Inc. and Tangiers Resources Corporation (collectively referred to as Absorbed Companies), with SM Retail as the surviving entity. As consideration for the Absorbed Companies, SM Retail issued its shares of stock to the stockholders of the Absorbed Companies. The Absorbed Companies have ownership on the following retail businesses (collectively referred to as the Retail Affiliates, and together with the Absorbed Companies, the Acquired Entities):

- ACE Hardware Philippines, Inc.
- Homeworld Shopping Corporation
- International Toyworld, Inc.
- Nursery Care Corporation
- Kultura Store, Inc.
- Star Appliance Center, Inc.
- CK Fashion Collection Corp.
- Signature Lines, Inc.
- Supplies Station, Inc.



- Sports Central (Manila), Inc.
- H & B, Inc.
- Fitness Health & Beauty Holdings Corp.

On July 7, 2016, the SEC approved the articles and plan of merger of SM Retail and the Absorbed Companies. Before the approval by the SEC of the articles and plan of merger, SM Retail was 100% directly owned by the Parent Company. With the merger, the Parent Company's equity interest changed from 100% to 77% because of the issuance of SM Retail of its shares of stock to the stockholders of the Absorbed Companies.

The Parent Company, SM Retail and the Acquired Entities are under the common control of the Sy Family before and after the merger. Thus, the merger was considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.

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

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity;
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- Comparatives are presented as if the entities had always been combined only for the period that the entities were under common control.

#### SM Prime Common Control Business Acquisitions

In December 2016, SM Prime through a subsidiary, acquired 90% each of the outstanding common stock of Shopping Center Management Corporation (SCMC) and SM Lifestyle Entertainment Inc. (SMLEI). The companies involved are under the common control of the Sy Family. Thus, the acquisitions were considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements. Prior period financial statements were not restated due to immateriality.

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## **6. Segment Information**

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

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



hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

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

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

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

#### Operating Segment Financial Data

| 2016                        |             |              |                               |               |              |
|-----------------------------|-------------|--------------|-------------------------------|---------------|--------------|
|                             | Property    | Retail       | Financial Services and Others | Eliminations  | Consolidated |
| <i>(In Thousands)</i>       |             |              |                               |               |              |
| Revenue:                    |             |              |                               |               |              |
| External customers          | ₱73,203,364 | ₱276,126,554 | ₱13,501,315                   | ₱—            | ₱362,831,233 |
| Inter-segment               | 11,253,256  | 3,123        | 5,520,056                     | (16,776,435)  | —            |
|                             | ₱84,456,620 | ₱276,129,677 | ₱19,021,371                   | (₱16,776,435) | ₱362,831,233 |
| Segment results:            |             |              |                               |               |              |
| Income before income tax    | ₱33,080,956 | ₱16,627,376  | ₱12,139,109                   | (₱2,530,849)  | ₱59,316,592  |
| Provision for income tax    | (6,777,132) | (4,906,396)  | (88,242)                      | 213,506       | (11,558,264) |
| Net income                  | ₱26,303,824 | ₱11,720,980  | ₱12,050,867                   | (₱2,317,343)  | ₱47,758,328  |
| Net income attributable to: |             |              |                               |               |              |
| Owners of the Parent        | ₱25,742,249 | ₱10,615,139  | ₱12,050,867                   | (₱17,203,951) | ₱31,204,304  |
| Non-controlling interests   | 561,575     | 1,105,841    | —                             | 14,886,608    | 16,554,024   |
| 2015 (As restated - Note 5) |             |              |                               |               |              |
|                             | Property    | Retail       | Financial Services and Others | Eliminations  | Consolidated |
| <i>(In Thousands)</i>       |             |              |                               |               |              |
| Revenue:                    |             |              |                               |               |              |
| External customers          | ₱65,083,773 | ₱254,800,665 | ₱12,924,369                   | ₱—            | ₱332,808,807 |
| Inter-segment               | 17,764,479  | 1,507        | 13,582,317                    | (31,348,303)  | —            |
|                             | ₱82,848,252 | ₱254,802,172 | ₱26,506,686                   | (₱31,348,303) | ₱332,808,807 |
| Segment results:            |             |              |                               |               |              |
| Income before income tax    | ₱36,806,850 | ₱15,330,012  | ₱20,296,620                   | (₱18,060,480) | ₱54,373,002  |
| Provision for income tax    | (6,228,772) | (4,403,917)  | (83,395)                      | —             | (10,716,084) |
| Net income                  | ₱30,578,078 | ₱10,926,095  | ₱20,213,225                   | (₱18,060,480) | ₱43,656,918  |
| Net income attributable to: |             |              |                               |               |              |
| Owners of the Parent        | ₱29,989,697 | ₱9,885,285   | ₱20,213,225                   | (₱31,223,050) | ₱28,865,157  |
| Non-controlling interests   | 588,381     | 1,040,810    | —                             | 13,162,570    | 14,791,761   |



| 2014 (As restated - Note 5) |                       |                     |                               |                      |                     |
|-----------------------------|-----------------------|---------------------|-------------------------------|----------------------|---------------------|
|                             | Property              | Retail              | Financial Services and Others | Eliminations         | Consolidated        |
|                             | <i>(In Thousands)</i> |                     |                               |                      |                     |
| Revenue:                    |                       |                     |                               |                      |                     |
| External customers          | ₱61,122,646           | ₱236,533,487        | ₱12,415,319                   | ₱-                   | ₱310,071,452        |
| Inter-segment               | 8,710,802             | 3,033               | 3,006,584                     | (11,720,419)         | -                   |
|                             | <b>₱69,833,448</b>    | <b>₱236,536,520</b> | <b>₱15,421,903</b>            | <b>(₱11,720,419)</b> | <b>₱310,071,452</b> |
| Segment results:            |                       |                     |                               |                      |                     |
| Income before income tax    | ₱25,838,181           | ₱13,046,497         | ₱13,195,544                   | (₱1,801,723)         | ₱50,278,499         |
| Provision for income tax    | (4,886,808)           | (3,750,620)         | (101,865)                     | 4,735                | (8,734,558)         |
| Net income                  | <b>₱20,951,373</b>    | <b>₱9,295,877</b>   | <b>₱13,093,679</b>            | <b>(₱1,796,988)</b>  | <b>₱41,543,941</b>  |
| Net income attributable to: |                       |                     |                               |                      |                     |
| Owners of the Parent        | ₱20,435,756           | ₱8,226,157          | ₱13,093,679                   | (₱13,370,402)        | ₱28,385,190         |
| Non-controlling interests   | 515,617               | 1,069,720           | -                             | 11,573,414           | 13,158,751          |

## 7. Cash and Cash Equivalents

This account consists of:

|                                     | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------------|-----------------------|-----------------------------------|
|                                     | <i>(In Thousands)</i> |                                   |
| Cash on hand and in banks (Note 22) | <b>₱8,260,508</b>     | ₱10,238,049                       |
| Temporary investments (Note 22)     | <b>66,687,223</b>     | 48,044,682                        |
|                                     | <b>₱74,947,731</b>    | <b>₱58,282,731</b>                |

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. These investments earn interest at prevailing rates (see Note 25).

Temporary investments amounting to ₱50.0 million and ₱583.9 million as at December 31, 2016 and 2015, respectively, are used as collateral for certain loans (see Note 18).

## 8. Time Deposits

This account consists of:

|                    | 2016                  | 2015<br>(As restated -<br>Note 5) |
|--------------------|-----------------------|-----------------------------------|
|                    | <i>(In Thousands)</i> |                                   |
| Current portion    | <b>₱24,473,541</b>    | ₱9,611,405                        |
| Noncurrent portion | <b>42,041,227</b>     | 53,127,769                        |
|                    | <b>₱66,514,768</b>    | <b>₱62,739,174</b>                |

The time deposits as at December 31, 2016 and 2015 bear annual interest ranging from 0.5% to 4.9%.



Time deposits with maturities of up to 12 months are used as collateral for interest-bearing debt. Interest earned from time deposits is disclosed in Note 25.

## 9. Investments Held for Trading and Sale

This account consists of:

|                                | 2016                  | 2015<br>(As restated -<br>Note 5) |
|--------------------------------|-----------------------|-----------------------------------|
|                                | <i>(In Thousands)</i> |                                   |
| Investments held for trading - |                       |                                   |
| Bonds                          | <b>₱296,596</b>       | <b>₱279,359</b>                   |
| AFS investments (Note 12):     |                       |                                   |
| Bonds and corporate notes      | <b>2,495,550</b>      | 179,282                           |
| Shares of stock -              |                       |                                   |
| Listed                         | <b>664,606</b>        | 642,274                           |
|                                | <b>3,160,156</b>      | 821,556                           |
|                                | <b>₱3,456,752</b>     | <b>₱1,100,915</b>                 |

The Group recognized a gain of ₱3.2 million, loss of ₱5.3 million and gain of ₱2.1 million from fair value adjustments of investments held for trading in 2016, 2015 and 2014, respectively. The amounts are included under “Gain (loss) 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 earned on investments held for trading and sale is disclosed in Note 25.

## 10. Receivables

This account consists of:

|                                                                             | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-----------------------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                                             | <i>(In Thousands)</i> |                                   |
| Trade:                                                                      |                       |                                   |
| Real estate buyers                                                          | <b>₱34,846,280</b>    | ₱31,549,267                       |
| Third-party tenants                                                         | <b>6,390,291</b>      | 6,145,924                         |
| Related-party tenants (Note 22)                                             | <b>582,146</b>        | 599,607                           |
| Due from related parties (Note 22)                                          | <b>631,342</b>        | 1,353,710                         |
| Management and service fees (Note 22)                                       | <b>303,340</b>        | 384,973                           |
| Dividends (Note 22)                                                         | <b>87,273</b>         | 466,767                           |
| Total                                                                       | <b>42,840,672</b>     | 40,500,248                        |
| Less allowance for impairment loss                                          | <b>967,343</b>        | 978,091                           |
|                                                                             | <b>41,873,329</b>     | 39,522,157                        |
| Less noncurrent portion of receivables from<br>real estate buyers (Note 17) | <b>10,526,627</b>     | 7,962,615                         |
| Current portion                                                             | <b>₱31,346,702</b>    | <b>₱31,559,542</b>                |



The terms and conditions of these receivables follow:

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units at various terms of payment. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱3,297.2 million and ₱2,842.5 million for the years ended December 31, 2016 and 2015, respectively (see Note 22), and, on with recourse basis, nil and ₱406.0 million for the years ended December 31, 2016 and 2015, respectively. The corresponding liability from assignment of receivables on with recourse basis bears interest rates ranging from 3.5% to 4.0% in 2015. The fair value of these assigned receivables and liability approximates cost.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.
- The terms and conditions relating to due from related parties are discussed in Note 22.

The movements in allowance for impairment loss follow:

|                              | 2016                  | 2015<br>(As restated -<br>Note 5) |
|------------------------------|-----------------------|-----------------------------------|
|                              | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year | <b>₱978,091</b>       | ₱366,864                          |
| Reversal and write off       | <b>(11,316)</b>       | (8,926)                           |
| Provisions (Note 24)         | <b>568</b>            | 620,153                           |
| Balance at end of year       | <b>₱967,343</b>       | ₱978,091                          |

The aging analyses of receivables follow:

|                               | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------|-----------------------|-----------------------------------|
|                               | <i>(In Thousands)</i> |                                   |
| Neither past due nor impaired | <b>₱38,313,504</b>    | ₱35,711,288                       |
| Past due but not impaired:    |                       |                                   |
| 31-90 days                    | <b>959,262</b>        | 1,281,333                         |
| 91-120 days                   | <b>384,720</b>        | 439,463                           |
| Over 120 days                 | <b>2,215,843</b>      | 2,090,073                         |
| Impaired                      | <b>967,343</b>        | 978,091                           |
|                               | <b>₱42,840,672</b>    | ₱40,500,248                       |

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



## 11. Other Current Assets

This account consists of:

|                                                         | 2016                  | 2015<br>(As restated -<br>Note 5) |
|---------------------------------------------------------|-----------------------|-----------------------------------|
|                                                         | <i>(In Thousands)</i> |                                   |
| Land and development (Note 16)                          | <b>₱27,228,525</b>    | ₱19,814,615                       |
| Prepaid taxes and other prepayments                     | <b>7,881,610</b>      | 7,698,306                         |
| Advances and deposits                                   | <b>6,797,245</b>      | 5,825,964                         |
| Condominium and residential units for sale<br>(Note 16) | <b>5,241,346</b>      | 8,294,523                         |
| Receivable from banks                                   | <b>4,488,746</b>      | 2,383,342                         |
| Non-trade receivables                                   | <b>2,482,881</b>      | 2,350,547                         |
| Input tax                                               | <b>2,281,727</b>      | 2,951,654                         |
| Notes receivable (Note 22)                              | <b>981,435</b>        | 981,435                           |
| Accrued interest receivable (Note 22)                   | <b>611,375</b>        | 545,921                           |
| Escrow fund (Notes 17 and 22)                           | <b>209,974</b>        | 437,639                           |
| Others                                                  | <b>839,275</b>        | 720,864                           |
|                                                         | <b>₱59,044,139</b>    | ₱52,004,810                       |

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.
- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 25).
- Notes receivable pertains to the loan extended by the Parent Company to Atlas Consolidated Mining and Development Corporation (Atlas) on September 17, 2015 amounting to ₱981.4 million. The loan bears interest at 5.0%, payable quarterly, and is renewable for 90-day periods for a maximum of five years at the option of the Parent Company (see Note 25).
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.
- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account (see Note 25).



## 12. Available-for-sale Investments

This account consists of:

|                                    | 2016                  | 2015<br>(As restated -<br>Note 5) |
|------------------------------------|-----------------------|-----------------------------------|
|                                    | <i>(In Thousands)</i> |                                   |
| Shares of stock:                   |                       |                                   |
| Listed                             | <b>₱16,864,874</b>    | ₱17,048,942                       |
| Unlisted                           | <b>61,405</b>         | 92,665                            |
| Bonds and corporate notes          | <b>4,893,300</b>      | 4,866,562                         |
| Club shares                        | <b>15,810</b>         | 13,530                            |
|                                    | <b>21,835,389</b>     | 22,021,699                        |
| Less allowance for impairment loss | –                     | 31,250                            |
|                                    | <b>21,835,389</b>     | 21,990,449                        |
| Less current portion (Note 9)      | <b>3,160,156</b>      | 821,556                           |
| Noncurrent portion                 | <b>₱18,675,233</b>    | ₱21,168,893                       |

- 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 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, 2016 and 2015 bear fixed interest rates ranging from 3.9% to 7.5%. These investments will mature on various dates beginning April 2016 to October 2023. The fair values of these investments as at December 31, 2016 and 2015 amounted to US\$98.4 million (₱4,893.3 million) and US\$103.4 million (₱4,866.6 million), respectively.

The movements in net unrealized gain on AFS investments and share in unrealized loss on AFS investments of associates attributable to the owners of the Parent follow:

|                                                                            | 2016                  | 2015<br>(As restated -<br>Note 5) |
|----------------------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                                            | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year                                               | <b>₱12,724,360</b>    | ₱10,207,259                       |
| Share in net unrealized loss on AFS investments<br>of associates (Note 13) | <b>(1,399,590)</b>    | (1,675,726)                       |
| Gain (loss) due to changes in fair value<br>of AFS investments             | <b>(541,395)</b>      | 4,192,860                         |
| Transferred to profit or loss                                              | <b>(2,945)</b>        | (33)                              |
| Balance at end of year                                                     | <b>₱10,780,430</b>    | ₱12,724,360                       |

Gain (loss) on disposal of AFS investments recognized under “Gain (loss) 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 ₱3.3 million gain, ₱0.6 million loss and ₱52.1 million gain for the years ended December 31, 2016, 2015 and 2014, respectively. The amounts are exclusive of non-controlling interests.

Interest earned from AFS investments is disclosed in Note 25.



### 13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

|                                                                           | 2016                  | 2015<br>(As restated -<br>Note 5) |
|---------------------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                                           | <i>(In Thousands)</i> |                                   |
| Cost:                                                                     |                       |                                   |
| Balance at beginning of year                                              | ₱112,712,483          | ₱95,447,294                       |
| Additions                                                                 | 468,050               | 15,546,154                        |
| Reclassification                                                          | –                     | 1,719,035                         |
| Balance at end of year                                                    | 113,180,533           | 112,712,483                       |
| Accumulated equity in net earnings:                                       |                       |                                   |
| Balance at beginning of year                                              | 59,683,548            | 50,554,774                        |
| Equity in net earnings                                                    | 14,979,645            | 14,305,879                        |
| Dividends received                                                        | (3,426,199)           | (5,177,105)                       |
| Balance at end of year                                                    | 71,236,994            | 59,683,548                        |
| Share in net unrealized loss on AFS investments<br>of associate companies | (3,170,085)           | (1,773,250)                       |
| Translation adjustment                                                    | (18,930)              | (5,627)                           |
|                                                                           | ₱181,228,512          | ₱170,617,154                      |

There is no impairment loss for any of these investments in 2016 and 2015.

The associate companies and joint ventures of the Group follow:

| Company                                                                                                               | Percentage of Ownership |      |       |           | Principal Activities                |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------|------|-------|-----------|-------------------------------------|
|                                                                                                                       | 2016                    | 2015 | Gross | Effective |                                     |
| <b>Associates</b>                                                                                                     |                         |      |       |           |                                     |
| BDO Unibank, Inc. and Subsidiaries (BDO)                                                                              | 46                      | 44   | 46    | 44        | Financial services                  |
| China Banking Corporation and Subsidiaries<br>(China Bank)                                                            | 23                      | 20   | 23    | 20        | Financial services                  |
| Belle Corporation and Subsidiaries (Belle)                                                                            | 32                      | 28   | 32    | 28        | Real estate development and tourism |
| Atlas and Subsidiaries                                                                                                | 29                      | 29   | 29    | 29        | Mining                              |
| Sodexo Benefits and Rewards Services<br>Philippines, Inc. (formerly Sodexo<br>Motivation Solutions Philippines, Inc.) | 40                      | 40   | 40    | 40        | Retail                              |
| Fast Retailing Philippines, Inc.                                                                                      | 25                      | 19   | 25    | 19        | Retail                              |
| CityMall Commercial Centers, Inc.                                                                                     | 34                      | 34   | 34    | 34        | Real estate development and tourism |
| Premium Leisure Corp. (PLC)                                                                                           | 4                       | 4    | 3     | 3         | Gaming                              |
| OCLP Holdings, Inc. (OHI)                                                                                             | 40                      | 20   | 40    | 20        | Real estate development             |
| Fei Hua Real Estate Company                                                                                           | 50                      | 25   | 50    | 25        | Real estate development             |
| Fitness Health and Beauty Holdings Corp.                                                                              | 40                      | 31   | 40    | 31        | Retail                              |
| <b>Joint Ventures</b>                                                                                                 |                         |      |       |           |                                     |
| Waltermart Mall                                                                                                       | 51                      | 25   | 51    | 25        | Shopping mall development           |
| Metro Rapid Transit Services, Inc.                                                                                    | 51                      | 25   | –     | –         | Transportation                      |
| ST 6747 Resources Corporation                                                                                         | 50                      | 25   | –     | –         | Real estate development             |



### China Bank

In May 2016, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock which increased the number of common shares held by the Group by 33.5 million. The said shares were issued on June 3, 2016.

In May 2015, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock which increased the number of common shares held by the Group by 31.0 million. The said shares were issued on September 9, 2015.

### BDO

The Parent Company's equity interest in BDO was reduced by 1% as a result of BDO's issuance of 64.5 million shares relative to its acquisition of One Network Bank on July 20, 2015.

### Atlas

At various dates in 2015, Primebridge acquired 7.4 million shares of Atlas for a total consideration of ₱64.2 million.

### OHI

On May 7, 2015, SM Prime acquired 39.96% collective ownership interest in OHI through the acquisition of 100% interest in six (6) holding entities for a total consideration of ₱15,433.0 million which approximates the proportionate share of SM Prime in the fair value of the identifiable net assets of OHI. OHI owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

### PLC

At various dates in 2016, the Parent Company acquired a total of 243.6 million shares of PLC equivalent to 0.77% of the outstanding common shares, at an average price of ₱0.56 per share for a total cost of ₱137.0 million.

The condensed financial information of the Group's material associate, BDO, and the reconciliation of its net assets to the carrying amounts in the consolidated financial statements follow:

|                                     | 2016                 | 2015       |
|-------------------------------------|----------------------|------------|
|                                     | <i>(In Millions)</i> |            |
| Total assets                        | <b>₱2,324,958</b>    | ₱2,031,254 |
| Total liabilities                   | <b>2,107,423</b>     | 1,831,641  |
| Total equity                        | <b>217,535</b>       | 199,613    |
| Proportion of the Group's ownership | <b>46%</b>           | 46%        |
|                                     | <b>100,066</b>       | 91,822     |
| Goodwill and others                 | <b>19,953</b>        | 20,023     |
| Carrying amount of the investment   | <b>₱120,019</b>      | ₱111,845   |



|                                     | 2016            | 2015                 | 2014     |
|-------------------------------------|-----------------|----------------------|----------|
|                                     |                 | <i>(In Millions)</i> |          |
| Interest income                     | <b>₱82,037</b>  | ₱72,127              | ₱63,583  |
| Interest expense                    | <b>(16,413)</b> | (15,166)             | (12,358) |
| Other expenses - net                | <b>(39,522)</b> | (31,906)             | (28,397) |
| Net income                          | <b>26,102</b>   | 25,055               | 22,828   |
| Other comprehensive income (loss)   | <b>(3,847)</b>  | (3,830)              | 390      |
| Total comprehensive income          | <b>₱22,255</b>  | ₱21,225              | ₱23,218  |
| Share in net income                 | <b>₱11,945</b>  | ₱11,553              | ₱11,002  |
| Share in total comprehensive income | <b>₱10,394</b>  | ₱9,867               | ₱11,122  |

The aggregate information of associates and joint ventures that are not individually material follows:

|                                            | 2016          | 2015                 | 2014   |
|--------------------------------------------|---------------|----------------------|--------|
|                                            |               | <i>(In Millions)</i> |        |
| Share in net income                        | <b>₱3,034</b> | ₱2,517               | ₱2,223 |
| Share in other comprehensive income (loss) | <b>154</b>    | (87)                 | 315    |
| Share in total comprehensive income        | <b>₱3,188</b> | ₱2,430               | ₱2,538 |

The fair value of investments in associate companies which are listed in the PSE follows:

|            | 2016                  | 2015         |
|------------|-----------------------|--------------|
|            | <i>(In Thousands)</i> |              |
| BDO        | <b>₱201,065,053</b>   | ₱188,408,619 |
| China Bank | <b>17,163,361</b>     | 15,557,433   |
| Belle      | <b>10,688,941</b>     | 9,720,256    |
| Atlas      | <b>3,055,705</b>      | 2,492,329    |
| PLC        | <b>1,503,927</b>      | 666,777      |



## 14. Property and Equipment

The movements in this account follow:

|                                                  | Buildings and<br>Improvements | Store Equipment<br>and<br>Improvements | Data<br>Processing<br>Equipment | Furniture,<br>Fixtures<br>and Office<br>Equipment | Machinery<br>and<br>Equipment | Leasehold<br>Improvements | Transportation<br>Equipment | Construction<br>in Progress | Total              |
|--------------------------------------------------|-------------------------------|----------------------------------------|---------------------------------|---------------------------------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------|
| <i>(In Thousands)</i>                            |                               |                                        |                                 |                                                   |                               |                           |                             |                             |                    |
| <b>Cost</b>                                      |                               |                                        |                                 |                                                   |                               |                           |                             |                             |                    |
| As at December 31, 2014                          | ₱11,053,403                   | ₱4,114,251                             | ₱5,715,168                      | ₱7,687,630                                        | ₱4,409,505                    | ₱12,120,029               | ₱841,452                    | ₱1,274,421                  | ₱47,215,859        |
| Additions                                        | 800,872                       | 359,097                                | 704,314                         | 818,814                                           | 742,340                       | 777,224                   | 109,573                     | 739,765                     | 5,051,999          |
| Reclassifications                                | (289,467)                     | (793,696)                              | (49,606)                        | (487,234)                                         | 1,019,804                     | 27,041                    | 8,723                       | (883,063)                   | (1,447,498)        |
| Disposals/retirements                            | (41,571)                      | (202,652)                              | (634,275)                       | (53,003)                                          | (51,405)                      | (203,761)                 | (6,365)                     | (6,506)                     | (1,199,538)        |
| As at December 31, 2015                          | 11,523,237                    | 3,477,000                              | 5,735,601                       | 7,966,207                                         | 6,120,244                     | 12,720,533                | 953,383                     | 1,124,617                   | 49,620,822         |
| Additions                                        | 574,036                       | 242,290                                | 571,425                         | 897,467                                           | 672,358                       | 1,271,631                 | 142,893                     | 877,098                     | 5,249,198          |
| Reclassifications                                | (54,298)                      | (643,406)                              | 80,542                          | (450,675)                                         | 199,312                       | 1,717,990                 | 4,596                       | (599,319)                   | 254,742            |
| Disposals/retirements                            | (65,578)                      | (30,104)                               | (78,386)                        | (49,937)                                          | (49,534)                      | (176,053)                 | (5,301)                     | (193,598)                   | (648,491)          |
| <b>As at December 31, 2016</b>                   | <b>₱11,977,397</b>            | <b>₱3,045,780</b>                      | <b>₱6,309,182</b>               | <b>₱8,363,062</b>                                 | <b>₱6,942,380</b>             | <b>₱15,534,101</b>        | <b>₱1,095,571</b>           | <b>₱1,208,798</b>           | <b>₱54,476,271</b> |
| <b>Accumulated Depreciation and Amortization</b> |                               |                                        |                                 |                                                   |                               |                           |                             |                             |                    |
| As at December 31, 2014                          | ₱2,893,261                    | ₱2,744,973                             | ₱4,161,883                      | ₱4,608,365                                        | ₱2,829,521                    | ₱8,405,579                | ₱511,919                    | ₱—                          | ₱26,155,501        |
| Depreciation and amortization (Note 24)          | 847,044                       | 326,145                                | 649,803                         | 796,451                                           | 645,339                       | 1,216,932                 | 77,381                      | —                           | 4,559,095          |
| Reclassifications                                | (256,316)                     | (458,733)                              | (83,116)                        | (381,528)                                         | 459,503                       | (167,898)                 | 15,590                      | —                           | (872,498)          |
| Disposals/retirements                            | (19,623)                      | (202,283)                              | (366,977)                       | (27,726)                                          | (35,054)                      | (202,485)                 | (4,609)                     | —                           | (858,757)          |
| As at December 31, 2015                          | 3,464,366                     | 2,410,102                              | 4,361,593                       | 4,995,562                                         | 3,899,309                     | 9,252,128                 | 600,281                     | —                           | 28,983,341         |
| Depreciation and amortization (Note 24)          | 840,169                       | 288,269                                | 617,703                         | 770,536                                           | 699,670                       | 1,380,577                 | 95,238                      | —                           | 4,692,162          |
| Reclassifications                                | 5,529                         | (628,201)                              | 2,484                           | (429,953)                                         | 47,459                        | 1,197,925                 | 996                         | —                           | 196,239            |
| Disposals/retirements                            | (50,823)                      | (26,474)                               | (35,370)                        | (24,320)                                          | (28,914)                      | (174,486)                 | (5,301)                     | —                           | (345,688)          |
| <b>As at December 31, 2016</b>                   | <b>₱4,259,241</b>             | <b>₱2,043,696</b>                      | <b>₱4,946,410</b>               | <b>₱5,311,825</b>                                 | <b>₱4,617,524</b>             | <b>₱11,656,144</b>        | <b>₱691,214</b>             | <b>₱—</b>                   | <b>₱33,526,054</b> |
| <b>Net Book Value</b>                            |                               |                                        |                                 |                                                   |                               |                           |                             |                             |                    |
| As at December 31, 2016                          | ₱7,718,156                    | ₱1,002,084                             | ₱1,362,772                      | ₱3,051,237                                        | ₱2,324,856                    | ₱3,877,957                | ₱404,357                    | ₱1,208,798                  | ₱20,950,217        |
| As at December 31, 2015                          | 8,058,871                     | 1,066,898                              | 1,374,008                       | 2,970,645                                         | 2,220,935                     | 3,468,405                 | 353,102                     | 1,124,617                   | 20,637,481         |

As at December 31, 2016 and 2015, the Group has no idle property and equipment and the cost of fully depreciated property and equipment still in use amounted to ₱18,273.5 million and ₱13,609.9 million, respectively.



## 15. Investment Properties

The movements in this account follow:

|                                                                       | Land and<br>Improvements | Buildings<br>and<br>Improvements | Building<br>Equipment,<br>Furniture<br>and Others | Construction<br>in Progress | Total               |
|-----------------------------------------------------------------------|--------------------------|----------------------------------|---------------------------------------------------|-----------------------------|---------------------|
| <i>(In Thousands)</i>                                                 |                          |                                  |                                                   |                             |                     |
| <b>Cost</b>                                                           |                          |                                  |                                                   |                             |                     |
| As at December 31, 2014                                               | ₱46,567,657              | ₱146,933,481                     | ₱25,125,352                                       | ₱38,807,826                 | ₱257,434,316        |
| Additions                                                             | 18,590,095               | 14,517,955                       | 1,814,237                                         | 9,480,701                   | 44,402,988          |
| Reclassifications                                                     | 335,349                  | 14,738,719                       | 2,229,377                                         | (16,059,390)                | 1,244,055           |
| Translation adjustment                                                | 64,091                   | 99,036                           | 12,795                                            | 72,742                      | 248,664             |
| Disposals                                                             | (311,144)                | (362,481)                        | (87,659)                                          | (6,071)                     | (767,355)           |
| As at December 31, 2015                                               | 65,246,048               | 175,926,710                      | 29,094,102                                        | 32,295,808                  | 302,562,668         |
| Effect of common control business<br>combination (Note 5)             | 34,819                   | —                                | 102,634                                           | —                           | 137,453             |
| Additions                                                             | 5,860,299                | 7,008,421                        | 3,584,292                                         | 10,316,258                  | 26,769,270          |
| Reclassifications                                                     | (1,521,882)              | 21,479,585                       | 354,248                                           | (17,633,329)                | 2,678,622           |
| Translation adjustment                                                | (18,575)                 | (271,994)                        | (30,711)                                          | (162,890)                   | (484,170)           |
| Disposals                                                             | (199,387)                | (10,535)                         | (29,063)                                          | (354,798)                   | (593,783)           |
| <b>As at December 31, 2016</b>                                        | <b>₱69,401,322</b>       | <b>₱204,132,187</b>              | <b>₱33,075,502</b>                                | <b>₱24,461,049</b>          | <b>₱331,070,060</b> |
| <b>Accumulated Depreciation, Amortization<br/>and Impairment Loss</b> |                          |                                  |                                                   |                             |                     |
| As at December 31, 2014                                               | ₱1,492,584               | ₱29,872,293                      | ₱14,057,448                                       | ₱123,564                    | ₱45,545,889         |
| Depreciation and amortization (Note 24)                               | 229,824                  | 4,681,811                        | 2,279,957                                         | —                           | 7,191,592           |
| Reclassifications                                                     | (18,722)                 | 398,055                          | 446,328                                           | —                           | 825,661             |
| Translation adjustment                                                | 4,041                    | 16,752                           | 18,563                                            | —                           | 39,356              |
| Write-off of impairment loss                                          | —                        | —                                | —                                                 | (123,564)                   | (123,564)           |
| Disposals                                                             | (41,085)                 | (360,637)                        | (98,046)                                          | —                           | (499,768)           |
| As at December 31, 2015                                               | 1,666,642                | 34,608,274                       | 16,704,250                                        | —                           | 52,979,166          |
| Effect of common control business<br>combination (Note 5)             | 20,972                   | 89,402                           | —                                                 | —                           | 110,374             |
| Depreciation and amortization (Note 24)                               | 205,701                  | 5,367,781                        | 2,471,626                                         | —                           | 8,045,108           |
| Reclassifications                                                     | (53,910)                 | 84,058                           | (67,645)                                          | —                           | (37,497)            |
| Translation adjustment                                                | (5,838)                  | (42,624)                         | (13,615)                                          | —                           | (62,077)            |
| Disposals                                                             | (78,986)                 | (10,535)                         | (22,001)                                          | —                           | (111,522)           |
| <b>As at December 31, 2016</b>                                        | <b>₱1,754,581</b>        | <b>₱40,096,356</b>               | <b>₱19,072,615</b>                                | <b>₱—</b>                   | <b>₱60,923,552</b>  |
| <b>Net Book Value</b>                                                 |                          |                                  |                                                   |                             |                     |
| As at December 31, 2016                                               | ₱67,646,741              | ₱164,035,831                     | ₱14,002,887                                       | ₱24,461,049                 | ₱270,146,508        |
| As at December 31, 2015                                               | 63,579,406               | 141,318,436                      | 12,389,852                                        | 32,295,808                  | 249,583,502         |

As at December 31, 2016 and 2015, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million. Allowance for impairment loss amounting to ₱123.6 million was written off in 2015. Portions of investment properties located in China were mortgaged as collateral to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱37,537.9 million, ₱33,457.0 million and ₱30,404.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱25,184.6 million, ₱24,016.1 million and ₱20,249.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In 2016, SM Prime acquired several parcels of land through acquisition of certain single asset entities amounting to ₱1,239.0 million.

Construction in progress amounting to ₱24,439.0 million and ₱31,965.0 million as at December 31, 2016 and 2015, respectively, pertains to landbanking as well as construction cost of shopping malls and commercial buildings.



In 2016, construction in progress includes the cost of land amounting to ₱2,765.0 million as well as construction contracts amounting to ₱109,324.0 million, with outstanding contracts valued at ₱20,059.0 million. Projects include SM Cagayan de Oro Premier, SM Puerto Princesa, SM Olongapo 2, SM Center Luna Tuguegarao and the ongoing redevelopment of SM Mall of Asia and SM Sucat and expansion of SM Xiamen.

In 2015, construction in progress includes the cost of land amounting to ₱3,291.0 million as well as construction contracts amounting to ₱106,136.0 million, with outstanding contracts valued at ₱24,304.0 million. Projects include SM Trece Martires, SM San Jose Del Monte, SM Cagayan de Oro Premier, SM Tianjin and the ongoing expansions and renovations of SM Mall of Asia and SM Xiamen.

Interest capitalized to the construction of investment properties amounted to ₱2,921.0 million, and ₱2,039.0 million in 2016 and 2015, respectively. Capitalization rates used range from 2.4% to 4.8% and 2.1% to 6.1% for the years ended December 31, 2016 and 2015, respectively. In 2016 and 2015, foreign exchange loss amounting to ₱528.0 million and ₱642.0 million, respectively, were also capitalized to the construction of investment property.

The fair value of substantially all investment properties amounting to ₱833,282.7 million and ₱572,921.2 million as at December 31, 2016 and 2015, respectively, was determined by accredited independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While appraisal was not done for all investment properties as at December 31, 2016 and 2015, the Group believes that there were no conditions present in 2016 and 2015 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

|                     |            |
|---------------------|------------|
| Discount rate       | 8.0%–12.0% |
| Capitalization rate | 5.8%–8.5%  |
| Average growth rate | 2.3%–12.1% |

In conducting the appraisal, the independent appraisers used either the Sales Comparison/ Market Data Approach or the Income Approach. The Sales Comparison/ Market Data Approach is a method of comparing prices paid for comparable properties sold or offered for sale in the market against the subject property. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The fair value of investment properties is categorized under Level 3 since valuation is based on unobservable inputs.



## 16. Land and Development and Condominium and Residential Units for Sale

### Condominium and Residential Units for Sale

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

|                                        | 2016                  | 2015<br>(As restated -<br>Note 5) |
|----------------------------------------|-----------------------|-----------------------------------|
|                                        | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year           | <b>₱8,294,523</b>     | ₱7,600,260                        |
| Transfer from land and development     | <b>3,516,449</b>      | 6,149,228                         |
| Recognized as cost of real estate sold | <b>(6,537,177)</b>    | (5,638,864)                       |
| Adjustment to cost                     | <b>(32,449)</b>       | 183,899                           |
| Balance at end of year (Note 11)       | <b>₱5,241,346</b>     | ₱8,294,523                        |

### Land and Development

Land and development include the cost of land as well as construction cost of ongoing residential projects.

The movements in this account follow:

|                                                           | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-----------------------------------------------------------|-----------------------|-----------------------------------|
|                                                           | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year                              | <b>₱47,201,323</b>    | ₱46,201,390                       |
| Development cost incurred                                 | <b>12,800,026</b>     | 11,827,278                        |
| Cost of real estate sold                                  | <b>(6,659,341)</b>    | (6,600,008)                       |
| Transfer to condominium and residential units<br>for sale | <b>(3,516,449)</b>    | (6,149,228)                       |
| Land acquisition                                          | <b>1,145,980</b>      | 1,534,242                         |
| Borrowing cost capitalized                                | <b>37,060</b>         | 407,549                           |
| Transfer from (to) property and equipment and<br>others   | <b>45,484</b>         | (19,900)                          |
| Balance at end of year                                    | <b>51,054,083</b>     | 47,201,323                        |
| Less current portion (Note 11)                            | <b>27,228,525</b>     | 19,814,615                        |
| Noncurrent portion                                        | <b>₱23,825,558</b>    | ₱27,386,708                       |

Included in land and development is land held for future development with details as follows:

|                                                 | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------------------------|-----------------------|-----------------------------------|
|                                                 | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year                    | <b>₱1,866,660</b>     | ₱1,601,748                        |
| Acquisition and transferred-in costs and others | <b>(20,905)</b>       | 264,912                           |
| Balance at end of year                          | <b>₱1,845,755</b>     | ₱1,866,660                        |

The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.5% to 4.2% in 2016 and 2.0% to 5.2% in 2015.



Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2016 and 2015.

## 17. Intangibles and Other Noncurrent Assets

### Intangible Assets

This account consists of:

|                                  | 2016                  | 2015<br>(As restated -<br>Note 5) |
|----------------------------------|-----------------------|-----------------------------------|
|                                  | <i>(In Thousands)</i> |                                   |
| Goodwill                         | <b>₱17,398,491</b>    | ₱17,398,491                       |
| Less accumulated impairment loss | <b>91,620</b>         | 91,620                            |
| Net book value                   | <b>17,306,871</b>     | 17,306,871                        |
| Trademarks and brand names       | <b>8,404,896</b>      | 8,528,780                         |
|                                  | <b>₱25,711,767</b>    | ₱25,835,651                       |

Goodwill is allocated to SM Prime, Supervalve, Inc., Super Shopping Market, Inc., Net Group, Waltermart Supermarket, Inc. and others as separate CGUs.

Trademarks and brand names pertain to that of:

- the supermarket and hypermarket business of the Group which was acquired in a business combination in 2006 and 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 rights, title and interest in the trademark of Cherry Foodarama, Inc. which was accounted for as an acquisition of an asset in 2015 and assessed to have a definite useful life of 20 years.

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

*Value-in-use.* The calculation of value-in-use is most sensitive to the following assumptions:

*Revenue.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

*Pre-tax discount rates.* Discount rates reflect the current market assessment of the risks to each cash generating unit and are estimated based on the average percentage of weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 11.6% to 12.3% and 12.9% to 13.2% as at December 31, 2016 and 2015, respectively.



Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2016 and 2015 to materially exceed its recoverable amount.

*Fair value less cost of disposal.* The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2016 and 2015 to materially exceed its recoverable amount.

#### Other Noncurrent Assets

This account consists of:

|                                               | 2016               | 2015<br>(As restated -<br>Note 5) |
|-----------------------------------------------|--------------------|-----------------------------------|
|                                               | (In Thousands)     |                                   |
| Deposits and advance rentals                  | P17,767,510        | P11,934,416                       |
| Receivables from real estate buyers (Note 10) | 10,526,627         | 7,962,615                         |
| Land use rights                               | 9,727,575          | 9,563,565                         |
| Long-term notes (Notes 22 and 30)             | 6,876,128          | 927,000                           |
| Derivative assets (Notes 29 and 30)           | 6,757,361          | 3,964,807                         |
| Deferred input VAT                            | 2,544,100          | 3,332,213                         |
| Defined benefit asset (Note 26)               | 629,658            | 623,533                           |
| Escrow fund (Note 22)                         | 132,460            | 132,460                           |
| Others                                        | 2,300,040          | 1,925,620                         |
|                                               | <b>P57,261,459</b> | <b>P40,366,229</b>                |

- 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 security deposits will be applied to future rentals. Consequently, said deposits and advance rentals are not re-measured at amortized cost.
- Long-term notes pertain to loans extended by the Parent Company to Atlas at various dates in 2016 and 2015. The loans bear interest ranging from 4.0% to 5.0% per annum, payable quarterly and semi-annually within five years, subject to repricing at prevailing market rates and with prepayment option in full or in part, prior to maturity. A portion of the notes that is due on June 9, 2018 and bearing a fixed interest rate of 4.0% contains multiple derivatives such as conversion, call and put option (see Note 29).
- Included under “Land use rights” account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties were not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Tenants’ deposits and others” account in the consolidated balance sheets. Portions of land use rights were mortgaged as collateral to secure the domestic borrowings in China (see Note 20).



- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. The escrow fund also include deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

## 18. Bank Loans

This account consists of:

|                               | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------|-----------------------|-----------------------------------|
|                               | <i>(In Thousands)</i> |                                   |
| Parent Company:               |                       |                                   |
| U.S. dollar-denominated loans | <b>₱2,983,200</b>     | <b>₱—</b>                         |
| Peso-denominated loans        | <b>4,800,000</b>      | <b>—</b>                          |
| Subsidiaries -                |                       |                                   |
| Peso-denominated loans        | <b>6,204,565</b>      | <b>10,495,215</b>                 |
|                               | <b>₱13,987,765</b>    | <b>₱10,495,215</b>                |

The unsecured U.S. dollar-denominated loans amounting to US\$60.0 million with peso equivalent of ₱2,983.2 million as at December 31, 2016 bear interest ranging from 1.2% to 2.0%.

The peso-denominated loans amounting to ₱11,004.6 million and ₱10,495.2 million as at December 31, 2016 and 2015, respectively, bear interest ranging from 2.5% to 3.0% and 2.0% to 4.2% in 2016 and 2015, respectively. A portion of the bank loans is secured by temporary investments as disclosed in Note 7.

These loans have maturities of less than one year.

Interest on bank loans is disclosed in Note 25.

## 19. Accounts Payable and Other Current Liabilities

This account consists of:

|                                          | 2016                  | 2015<br>(As restated -<br>Note 5) |
|------------------------------------------|-----------------------|-----------------------------------|
|                                          | <i>(In Thousands)</i> |                                   |
| Trade                                    | <b>₱54,189,536</b>    | <b>₱52,364,949</b>                |
| Accrued expenses                         | <b>12,083,636</b>     | <b>12,505,660</b>                 |
| Nontrade payables                        | <b>5,825,072</b>      | <b>3,241,988</b>                  |
| Tenants and customers' deposits          | <b>5,938,921</b>      | <b>4,423,313</b>                  |
| Payable arising from acquisition of land | <b>3,067,669</b>      | <b>3,188,749</b>                  |
| Payable to government agencies           | <b>2,949,740</b>      | <b>3,844,630</b>                  |
| Accrued interest payable (Note 22)       | <b>2,335,604</b>      | <b>1,870,615</b>                  |
| Due to related parties (Note 22)         | <b>708,767</b>        | <b>1,122,392</b>                  |
| Gift checks redeemable and others        | <b>2,160,088</b>      | <b>2,709,649</b>                  |
|                                          | <b>₱89,259,033</b>    | <b>₱85,271,945</b>                |



The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to due to related parties is discussed in Note 22.
- Gift checks are redeemable at face value.



## 20. Long-term Debt

This account consists of:

|                                        | Availment                         | Maturity                             | Interest rate/Term                                                 | Security  | 2016               | 2015<br>(As restated -<br>Note 5) |
|----------------------------------------|-----------------------------------|--------------------------------------|--------------------------------------------------------------------|-----------|--------------------|-----------------------------------|
| <i>(In Thousands)</i>                  |                                   |                                      |                                                                    |           |                    |                                   |
| <b>Parent Company</b>                  |                                   |                                      |                                                                    |           |                    |                                   |
| U.S. dollar-denominated:               |                                   |                                      |                                                                    |           |                    |                                   |
| Fixed rate bonds                       |                                   |                                      |                                                                    |           |                    |                                   |
| US\$350.0 million senior bonds         | June 10, 2014                     | June 10, 2024                        | Fixed 4.9%; semi-annual                                            | Unsecured | <b>₱17,402,000</b> | ₱16,471,000                       |
| US\$500.0 million senior bonds         | October 17, 2012                  | October 17, 2019                     | Fixed 4.2%; semi-annual                                            | Unsecured | <b>24,860,000</b>  | 23,530,000                        |
| US\$400.0 million exchanged bonds      | October 13, 2010                  | October 13, 2017                     | Fixed 5.5%; semi-annual                                            | Unsecured | <b>18,482,072</b>  | 18,277,891                        |
| US\$300.0 million five-year term loans | June 19, 2013 -<br>July 2, 2013   | May 15, 2018                         | Floating six-month LIBOR + margin; semi-annual                     | Unsecured | <b>14,916,000</b>  | 14,118,000                        |
| Peso-denominated:                      |                                   |                                      |                                                                    |           |                    |                                   |
| Seven-year and ten-year retail bonds   |                                   |                                      |                                                                    |           |                    |                                   |
| Series C Bonds                         | July 16, 2012                     | July 16, 2019                        | Fixed 6.0%; semi-annual                                            | Unsecured | <b>4,648,460</b>   | 4,648,460                         |
| Series D Bonds                         | July 16, 2012                     | July 16, 2022                        | Fixed 6.9%; semi-annual                                            | Unsecured | <b>7,683,810</b>   | 7,683,810                         |
| Series E Bonds                         | May 19, 2014                      | May 19, 2021                         | Fixed 5.3%; semi-annual                                            | Unsecured | <b>11,669,620</b>  | 11,669,620                        |
| Series F Bonds                         | May 19, 2014                      | May 19, 2024                         | Fixed 5.6%; semi-annual                                            | Unsecured | <b>3,330,380</b>   | 3,330,380                         |
| Series G Bonds                         | December 9, 2016                  | December 9, 2023                     | Fixed 5.2% semi-annual                                             | Unsecured | <b>20,000,000</b>  | —                                 |
| Five-year and seven-year retail bond   |                                   |                                      |                                                                    |           |                    |                                   |
| Series B Bonds                         | June 25, 2009                     | June 25, 2016                        | Fixed 9.1%; semi-annual                                            | Unsecured | —                  | 1,000,000                         |
| Other peso bank loans                  | April 23, 2013 -<br>June 30, 2014 | January 14, 2019 -<br>June 20, 2024  | Fixed 4.4%-5.4% and PDST-R2 + margin;<br>semi-annual and quarterly | Unsecured | <b>18,994,950</b>  | 19,000,300                        |
| <b>Subsidiaries</b>                    |                                   |                                      |                                                                    |           |                    |                                   |
| U.S. dollar-denominated:               |                                   |                                      |                                                                    |           |                    |                                   |
| Five-year term loans                   | May 6, 2011 -<br>March 21, 2016   | March 21, 2016 -<br>January 29, 2021 | LIBOR + spread; semi-annual                                        | Unsecured | <b>52,755,172</b>  | 50,354,200                        |
| Five-year bilateral loans              | December 7, 2012                  | August 30, 2017                      | LIBOR + spread; semi-annual                                        | Unsecured | <b>2,486,000</b>   | 2,353,000                         |
| Other U.S. dollar loans                | November 20, 2013                 | November 21, 2016                    | LIBOR + spread; semi-annual                                        | Unsecured | —                  | 1,176,500                         |

*(Forward)*



|                                                            |                                      |                                          |                                                 |           |                     | 2015<br>(As restated -<br>Note 5) |
|------------------------------------------------------------|--------------------------------------|------------------------------------------|-------------------------------------------------|-----------|---------------------|-----------------------------------|
|                                                            | Availment                            | Maturity                                 | Interest rate/Term                              | Security  | 2016                |                                   |
| <i>(In Thousands)</i>                                      |                                      |                                          |                                                 |           |                     |                                   |
| China Yuan Renminbi-denominated:                           |                                      |                                          |                                                 |           |                     |                                   |
| Five-year loan                                             | July 28, 2015 -<br>December 29, 2016 | December 31, 2019 -<br>June 1, 2020      | CBC rate less 10.0%; quarterly                  | Secured   | <b>₱524,743</b>     | ₱32,249                           |
| Peso-denominated:                                          |                                      |                                          |                                                 |           |                     |                                   |
| Five-year, seven-year and ten-year retail bonds            | September 1, 2014 -<br>July 26, 2016 | March 1, 2020 -<br>July 26, 2026         | Fixed 4.2%-5.7%; quarterly                      | Unsecured | <b>48,323,240</b>   | 38,324,206                        |
| Fixed rate term loans                                      | June 3, 2013 – August<br>30, 2016    | October 4, 2016 -<br>June 27, 2023       | Fixed 3.1%-5.9%;<br>semi-annual and quarterly   | Unsecured | <b>20,438,167</b>   | 21,443,500                        |
|                                                            | July 12, 2014 -<br>July 31, 2014     | July 12, 2021 -<br>July 31, 2021         | Fixed 5.2%-5.3%;<br>quarterly                   | Secured   | <b>2,783,478</b>    | 2,893,044                         |
| Five-year and ten-year notes                               | June 19, 2012                        | June 20, 2017 -<br>June 19, 2022         | Fixed 5.9%-6.7%; PDST-R2 + margin;<br>quarterly | Unsecured | <b>6,528,000</b>    | 7,226,500                         |
| Five-year, seven-year and ten-year notes                   | January 12, 2012                     | January 13, 2017 -<br>January 12, 2022   | Fixed 5.9%-6.1%; PDST-R2 + margin;<br>quarterly | Unsecured | <b>3,888,000</b>    | 4,229,200                         |
| Seven-year and ten-year corporate notes                    | June 13, 2011 -<br>December 21, 2015 | December 20, 2020 -<br>December 21, 2022 | Fixed 6.6%; PDST-R2 + margin;<br>quarterly      | Unsecured | <b>5,660,000</b>    | 6,520,000                         |
| Four-year, five-year and seven-year floating rate<br>notes | October 31, 2013 -<br>June 20, 2016  | October 31, 2017 -<br>June 20, 2023      | PDST-R2 + margin; quarterly                     | Unsecured | <b>13,300,000</b>   | 3,200,000                         |
| Five-year floating rate notes                              | March 18, 2011 -<br>June 17, 2011    | March 19, 2016 -<br>June 18, 2016        | PDST-R2 + margin; quarterly                     | Unsecured | –                   | 4,800,000                         |
| Fixed rate corporate notes                                 | June 3, 2013 -<br>June 28, 2014      | June 3, 2020 -<br>June 3, 2023           | Fixed 5.2%-5.9%; semi-annual                    | Unsecured | <b>8,674,400</b>    | 8,683,100                         |
| Five-year bilateral loans                                  | October 24, 2011                     | October 24, 2016                         | PDST-R2 + margin; quarterly                     | Unsecured | –                   | 500,000                           |
| Other bank loans                                           | August 15, 2006 -<br>June 8, 2015    | August 15, 2016 -<br>June 7, 2020        | Fixed 5.0%-9.8%; quarterly                      | Unsecured | <b>325,000</b>      | 1,525,000                         |
|                                                            |                                      |                                          |                                                 |           | <b>307,673,492</b>  | 272,989,960                       |
| Less debt issue cost                                       |                                      |                                          |                                                 |           | <b>1,817,683</b>    | 1,827,891                         |
|                                                            |                                      |                                          |                                                 |           | <b>305,855,809</b>  | 271,162,069                       |
| Less current portion                                       |                                      |                                          |                                                 |           | <b>25,601,582</b>   | 25,994,800                        |
|                                                            |                                      |                                          |                                                 |           | <b>₱280,254,227</b> | ₱245,167,269                      |

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM

CBC – Central Bank of China



### ***Subsidiaries***

#### **China Yuan Renminbi-denominated Five-Year Loan**

This consists of ¥90.0 million and ¥5.0 million loans as at December 31, 2016 and 2015, respectively, which were taken out of a ¥400.0 million loan facility obtained on July 28, 2015, to finance the construction of shopping malls. The loans are payable in quarterly installments until June 2020. These loans bear floating rates with quarterly re-pricing at prevailing rates dictated by the People's Bank of China. The loans carry interest rates of 4.8% to 5.2% and are secured by a portion of investment properties and land use rights in China (see Notes 15 and 17).

#### **Debt Issue Cost**

The movements in unamortized debt issue cost follow:

|                              | <b>2016</b>           | 2015<br>(As restated -<br>Note 5) |
|------------------------------|-----------------------|-----------------------------------|
|                              | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year | <b>¥1,827,891</b>     | ¥2,106,176                        |
| Amortization                 | <b>(614,626)</b>      | (546,246)                         |
| Additions                    | <b>609,349</b>        | 316,885                           |
| Conversions                  | —                     | (38,464)                          |
| Prepayments                  | <b>(4,931)</b>        | (10,460)                          |
| Balance at end of year       | <b>¥1,817,683</b>     | ¥1,827,891                        |

#### **Repayment Schedule**

The repayment schedule of long-term debt as at December 31, 2016 follows:

|      | Gross Loan            | Debt Issue Cost   | Net                 |
|------|-----------------------|-------------------|---------------------|
|      | <i>(In Thousands)</i> |                   |                     |
| 2017 | ¥25,641,573           | ¥39,991           | ¥25,601,582         |
| 2018 | 44,946,301            | 302,099           | 44,644,202          |
| 2019 | 57,870,501            | 353,793           | 57,516,708          |
| 2020 | 29,281,386            | 118,770           | 29,162,616          |
| 2021 | 58,396,481            | 418,645           | 57,977,836          |
| 2022 | 19,063,170            | 72,981            | 18,990,189          |
| 2023 | 35,508,960            | 263,957           | 35,245,003          |
| 2024 | 24,934,080            | 215,667           | 24,718,413          |
| 2025 | 2,031,040             | 25,876            | 2,005,164           |
| 2026 | 10,000,000            | 5,904             | 9,994,096           |
|      | <b>¥307,673,492</b>   | <b>¥1,817,683</b> | <b>¥305,855,809</b> |

#### **Covenants**

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2016 and 2015, the Group is in compliance with the terms of its debt covenants.



## 21. Equity

### Capital Stock

#### a. Common stock

|                                      | Number of Shares     |                                   |
|--------------------------------------|----------------------|-----------------------------------|
|                                      | 2016                 | 2015<br>(As restated -<br>Note 5) |
| Authorized - ₱10 par value per share | <b>2,790,000,000</b> | 1,190,000,000                     |
| Issued and subscribed:               |                      |                                   |
| Balance at beginning of year         | <b>803,055,405</b>   | 796,340,646                       |
| Issuances:                           |                      |                                   |
| Conversion of convertible bonds      | —                    | 6,714,759                         |
| 50% stock dividends                  | <b>401,527,462</b>   | —                                 |
| Balance at end of year               | <b>1,204,582,867</b> | 803,055,405                       |

On March 2, 2016, the BOD approved the Parent Company's:

- Increase in authorized capital stock from ₱12,000.0 million, consisting of 1,190.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share, to ₱28,000.0 million, consisting of 2,790.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share.
- Declaration of 50% stock dividends in favor of stockholders on record to be fixed by the Philippine SEC.

On April 27, 2016, the stockholders, which represent at least two-thirds of the outstanding capital stock of the Parent Company, approved the amendment of its articles of incorporation for the increase in its authorized capital stock as well as the declaration of 50% stock dividends.

On July 15, 2016, the Philippine SEC approved the increase in the authorized capital stock from ₱12,000 million to ₱28,000 million.

On July 20, 2016, the Philippine SEC approved the issuance of 401,527,462 shares as stock dividends to stockholders on record as at August 3, 2016. The stock dividends were issued on August 18, 2016.

On various dates in 2015, additional 6,714,759 common shares were issued as a result of conversion of the Parent Company's convertible bonds. The excess of the conversion price over par value totaling ₱4,833.1 million in 2015 is presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31, 2016 and 2015, the Parent Company is compliant with the minimum public float as required by the PSE.



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

| Date of SEC Approval                  | Authorized Shares | Number of Shares Issued | Issue/Offer Price |
|---------------------------------------|-------------------|-------------------------|-------------------|
| March 22, 2005                        |                   | 105,000,000             | ₱250              |
| November 6, 2007                      |                   | 56,000,000              | 218               |
| June 14, 2007                         | 100,000,000       |                         | 10                |
| April 25, 2007 (4.3% stock dividends) |                   | 25,023,038              | 10                |
| October 4, 2010 to March 13, 2012     |                   |                         |                   |
| Conversion of convertible bonds       |                   | 2,851,582               | 453               |
| September 24, 2012                    |                   | 9,100,000               | 700               |
| January 23, 2013 to July 5, 2013      |                   |                         |                   |
| Conversion of convertible bonds       |                   | 7,651,851               | 781               |
| June 14, 2013                         | 500,000,000       |                         | 10                |
| June 24 and July 12, 2013             |                   |                         |                   |
| (25.0% stock dividends)               |                   | 157,657,314             | 10                |
| July 18, 2013 to November 1, 2013     |                   |                         |                   |
| Conversion of convertible bonds       |                   | 738,483                 | 625               |
| August 1, 2013                        |                   | 7,250,000               | 900               |
| August 27, 2014                       |                   |                         |                   |
| Conversion of convertible bonds       |                   | 68,378                  | 625               |
| January 15, 2015 to April 9, 2015     |                   |                         |                   |
| Conversion of convertible bonds       |                   | 6,714,759               | 625               |
| July 15, 2016                         | 1,600,000,000     |                         | 10                |
| July 20, 2016 (50.0% stock dividends) |                   | 401,527,462             | 10                |

The total number of shareholders of the Parent Company is 1,244 and 1,243 as at December 31, 2016 and 2015, respectively.

b. Redeemable preferred shares

|                                      | Number of shares |                        |
|--------------------------------------|------------------|------------------------|
|                                      | 2016             | 2015                   |
|                                      |                  | (As restated - Note 5) |
| Authorized - ₱10 par value per share | 10,000,000       | 10,000,000             |

There are no issued and subscribed preferred shares as at December 31, 2016 and 2015.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates (see Note 5).
- SM Prime common control business acquisition in 2016 (see Note 5).



These acquisitions were considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.

### Retained Earnings

#### a. Appropriated

Following are the appropriations approved by the BOD:

|          | Date of BOD Approval | Amount<br>(In Thousands) |
|----------|----------------------|--------------------------|
| Initial  | November 5, 2003     | ₱5,000,000               |
| Addition | December 14, 2012    | 30,000,000               |
| Reversal | April 25, 2013       | (8,000,000)              |
| Reversal | November 4, 2015     | (18,000,000)             |
| Addition | November 4, 2015     | 27,000,000               |

Retained earnings appropriated as at December 31, 2016 and 2015 is intended for the payment of certain long-term debts and new investments as follows:

|                   | Timeline  | Amount<br>(In Thousands) |
|-------------------|-----------|--------------------------|
| Debt servicing    |           |                          |
| US\$400.0 million | 2017      | ₱18,800,000              |
| US\$180.0 million | 2018      | 8,200,000                |
| New investments   | 2016–2020 | 9,000,000                |
|                   |           | <b>₱36,000,000</b>       |

#### b. Unappropriated

The Parent Company's cash dividend declarations in 2016 and 2015 follow:

| Declaration Date      | Record Date         | Payment Date        | Per Share     | Total<br>(In Thousands) |
|-----------------------|---------------------|---------------------|---------------|-------------------------|
| <b>April 27, 2016</b> | <b>May 12, 2016</b> | <b>May 26, 2016</b> | <b>₱10.63</b> | <b>₱8,536,467</b>       |
| April 29, 2015        | May 14, 2015        | June 9, 2015        | 10.61         | 8,520,406               |

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱154,730.7 million and ₱135,601.8 million as at December 31, 2016 and 2015, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

## **22. Related Party Disclosures**

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



The significant transactions with related parties follow:

a. Rent

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

b. Management and Service Fees

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

c. Dividend Income

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

d. Cash Placements and Loans

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

e. Notes Receivable

The group has certain notes receivable from Atlas (see Notes 11, 17 and 29).

f. Others

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

The related party transactions and outstanding balances follow:

|                                                        | Transaction Amount        |                           |                           | Outstanding Amount |              | Terms                         | Conditions               |
|--------------------------------------------------------|---------------------------|---------------------------|---------------------------|--------------------|--------------|-------------------------------|--------------------------|
|                                                        | 2015                      | 2014                      | 2015                      |                    |              |                               |                          |
|                                                        | (As restated -<br>Note 5) | (As restated -<br>Note 5) | (As restated -<br>Note 5) |                    |              |                               |                          |
|                                                        | 2016                      |                           |                           | 2016               |              |                               |                          |
| (In Thousands)                                         |                           |                           |                           |                    |              |                               |                          |
| Banking Group                                          |                           |                           |                           |                    |              |                               |                          |
| Cash placement and investment in marketable securities |                           |                           |                           | ₱130,427,891       | ₱110,747,016 | Interest-bearing 0.5% to 4.9% | Unsecured; no impairment |
| Interest receivable                                    |                           |                           |                           | 431,533            | 397,665      | Interest-bearing 0.5% to 4.9% | Unsecured; no impairment |
| Interest income                                        | ₱2,401,642                | ₱2,407,497                | ₱2,567,072                |                    |              |                               |                          |
| Interest-bearing debt                                  |                           |                           |                           | 9,831,165          | 8,633,170    | Interest-bearing 1.6% to 9.8% | Unsecured                |
| Interest payable                                       |                           |                           |                           | 36,915             | 30,498       | Interest-bearing 1.6% to 9.8% | Unsecured                |
| Interest expense                                       | 535,828                   | 462,322                   | 1,250,017                 |                    |              |                               |                          |
| Rent receivable                                        |                           |                           |                           | 110,669            | 181,225      | Noninterest-bearing           | Unsecured; no impairment |
| Rent income                                            | 769,720                   | 679,691                   | 617,155                   |                    |              |                               |                          |
| Receivable financed                                    | 3,297,217                 | 2,842,481                 | 3,750,848                 | —                  | —            | Without recourse              | Unsecured                |
| Dividend receivable                                    |                           |                           |                           | 2,162              | —            | Noninterest-bearing           | Unsecured; no impairment |
| Management and service fee receivable                  |                           |                           |                           | 31,905             | 158,822      | Noninterest-bearing           | Unsecured; no impairment |
| Management and service fee income                      | 4,368                     | 6,793                     | 8,097                     |                    |              |                               |                          |
| Escrow fund                                            |                           |                           |                           | 339,974            | 567,639      | Interest-bearing 1.4% to 1.6% | Unsecured; no impairment |
| (Forward)                                              |                           |                           |                           |                    |              |                               |                          |



|                                       | Transaction Amount |                           |                           | Outstanding Amount |                           | Terms               | Conditions    |
|---------------------------------------|--------------------|---------------------------|---------------------------|--------------------|---------------------------|---------------------|---------------|
|                                       | 2016               | 2015                      | 2014                      | 2016               | 2015                      |                     |               |
|                                       |                    | (As restated -<br>Note 5) | (As restated -<br>Note 5) |                    | (As restated -<br>Note 5) |                     |               |
| <i>(In Thousands)</i>                 |                    |                           |                           |                    |                           |                     |               |
| <b>Retail and Other Entities</b>      |                    |                           |                           |                    |                           |                     |               |
| Rent receivable                       |                    |                           |                           | <b>₱471,477</b>    | ₱418,382                  | Noninterest-bearing | Unsecured;    |
| Rent income                           | <b>₱1,516,273</b>  | ₱1,253,185                | ₱1,058,283                |                    |                           |                     | no impairment |
| Management and service fee receivable |                    |                           |                           | <b>218,757</b>     | 212,526                   | Noninterest-bearing | Unsecured;    |
| Management and service fee income     | <b>393,564</b>     | 279,110                   | 332,744                   |                    |                           |                     | no impairment |
| Dividend receivable                   |                    |                           |                           | <b>24,000</b>      | 362,312                   | Noninterest-bearing | Unsecured;    |
| Dividend income                       | —                  | 86,790                    | —                         |                    |                           |                     | no impairment |
| Due from related parties              |                    |                           |                           | <b>631,342</b>     | 1,353,710                 | Noninterest-bearing | Unsecured;    |
| Due to related parties                |                    |                           |                           | <b>708,767</b>     | 1,122,392                 | Noninterest-bearing | Unsecured     |
| Interest receivable                   |                    |                           |                           | <b>35,760</b>      | 9,467                     | Interest-bearing    | Unsecured;    |
| Interest income                       | <b>316,633</b>     | 53,882                    | 15,699                    |                    |                           | 4.0% to 5.0%        | no impairment |
| Notes receivable                      |                    |                           |                           | <b>7,857,563</b>   | 1,908,435                 | Interest-bearing    | Unsecured;    |
|                                       |                    |                           |                           |                    |                           | 4.0% to 5.0%        | no impairment |

#### Terms and Conditions of Transactions with Related Parties

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

#### 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, 2016, 2015 and 2014 consist of short-term employee benefits amounting to ₱1,740.2 million, ₱1,482.7 million and ₱1,259.3 million, respectively, and post-employment benefits amounting to ₱196.7 million, ₱156.3 million and ₱123.4 million, respectively.

### **23. Cost of Merchandise Sales**

This account consists of:

|                                              | 2016                | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|----------------------------------------------|---------------------|-----------------------------------|-----------------------------------|
| <i>(In Thousands)</i>                        |                     |                                   |                                   |
| Merchandise inventories at beginning of year | <b>₱21,589,701</b>  | ₱19,444,961                       | ₱17,013,466                       |
| Purchases                                    | <b>205,088,168</b>  | 187,581,693                       | 174,059,609                       |
| Total goods available for sale               | <b>226,677,869</b>  | 207,026,654                       | 191,073,075                       |
| Less merchandise inventories at end of year  | <b>25,825,290</b>   | 21,589,701                        | 19,444,961                        |
|                                              | <b>₱200,852,579</b> | ₱185,436,953                      | ₱171,628,114                      |



## 24. Selling, General and Administrative Expenses

This account consists of:

|                                                                                 | 2016                  | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|---------------------------------------------------------------------------------|-----------------------|-----------------------------------|-----------------------------------|
|                                                                                 | <i>(In Thousands)</i> |                                   |                                   |
| Personnel cost (Note 22)                                                        | <b>₱18,293,812</b>    | ₱16,048,078                       | ₱15,430,502                       |
| Utilities                                                                       | <b>13,495,097</b>     | 12,282,410                        | 12,112,220                        |
| Depreciation and amortization<br>(Notes 14, 15 and 17)                          | <b>12,861,154</b>     | 11,846,356                        | 11,347,477                        |
| Taxes and licenses                                                              | <b>7,219,786</b>      | 6,158,660                         | 5,419,821                         |
| Rent (Note 28)                                                                  | <b>6,233,281</b>      | 6,045,825                         | 5,814,308                         |
| Outside services                                                                | <b>6,220,300</b>      | 5,196,137                         | 4,736,963                         |
| Marketing and selling                                                           | <b>4,473,268</b>      | 3,664,128                         | 3,683,755                         |
| Repairs and maintenance                                                         | <b>2,358,071</b>      | 2,010,546                         | 1,905,799                         |
| Supplies                                                                        | <b>2,097,055</b>      | 1,609,985                         | 1,417,837                         |
| Provision for (reversal of) impairment loss<br>and others (Notes 10, 13 and 15) | <b>1,335,461</b>      | 478,869                           | (288,547)                         |
| Transportation and travel                                                       | <b>912,614</b>        | 822,936                           | 759,849                           |
| Insurance                                                                       | <b>753,134</b>        | 695,169                           | 695,505                           |
| Donations                                                                       | <b>648,669</b>        | 265,060                           | 149,216                           |
| Pension (Note 26)                                                               | <b>543,924</b>        | 509,898                           | 449,575                           |
| Data processing                                                                 | <b>414,238</b>        | 259,804                           | 330,751                           |
| Entertainment, representation and amusement                                     | <b>380,675</b>        | 389,926                           | 354,944                           |
| Professional fees                                                               | <b>353,108</b>        | 291,189                           | 328,055                           |
| Communications                                                                  | <b>266,414</b>        | 246,292                           | 207,689                           |
| Management fees (Note 22)                                                       | <b>130,203</b>        | 1,324,253                         | 1,195,192                         |
| Others                                                                          | <b>2,853,001</b>      | 3,440,160                         | 3,640,522                         |
|                                                                                 | <b>₱81,843,265</b>    | ₱73,585,681                       | ₱69,691,433                       |

## 25. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

|                                                     | 2016                  | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|-----------------------------------------------------|-----------------------|-----------------------------------|-----------------------------------|
|                                                     | <i>(In Thousands)</i> |                                   |                                   |
| Interest income on:                                 |                       |                                   |                                   |
| Time deposits (Note 8)                              | <b>₱2,063,883</b>     | ₱2,058,413                        | ₱2,059,817                        |
| Cash in banks and temporary investments<br>(Note 7) | <b>958,162</b>        | 676,670                           | 548,224                           |
| AFS investments (Notes 9 and 12)                    | <b>331,327</b>        | 326,658                           | 380,399                           |
| Investments held for trading (Note 9)               | <b>17,655</b>         | 17,998                            | 25,791                            |
| Others (Notes 11 and 17)                            | <b>354,490</b>        | 135,277                           | 82,460                            |
|                                                     | <b>₱3,725,517</b>     | ₱3,215,016                        | ₱3,096,691                        |

*(Forward)*



|                          | 2016                  | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|--------------------------|-----------------------|-----------------------------------|-----------------------------------|
|                          | <i>(In Thousands)</i> |                                   |                                   |
| Interest expense on:     |                       |                                   |                                   |
| Long-term debt (Note 20) | <b>₱10,907,650</b>    | ₱9,569,626                        | ₱10,801,336                       |
| Bank loans (Note 18)     | <b>425,526</b>        | 655,228                           | 655,450                           |
| Others                   | <b>418,763</b>        | 250,100                           | 453,507                           |
|                          | <b>₱11,751,939</b>    | ₱10,474,954                       | ₱11,910,293                       |

## 26. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under “Selling, general and administrative expenses”)

|                      | 2016                  | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|----------------------|-----------------------|-----------------------------------|-----------------------------------|
|                      | <i>(In Thousands)</i> |                                   |                                   |
| Net benefit expense: |                       |                                   |                                   |
| Current service cost | <b>₱577,642</b>       | ₱534,171                          | ₱465,272                          |
| Net interest income  | <b>(33,718)</b>       | (24,273)                          | (31,660)                          |
| Others               | —                     | —                                 | 15,963                            |
|                      | <b>₱543,924</b>       | ₱509,898                          | ₱449,575                          |

### Changes in the net defined benefit liability and asset

#### a. Net Defined Benefit Liability

|                                                                      | Present value<br>of Defined<br>Benefit<br>Obligation | Fair Value<br>of Plan Assets | Amount not<br>Recognized due<br>to Asset Limit | Defined<br>Benefit<br>Liability<br>(Asset) |
|----------------------------------------------------------------------|------------------------------------------------------|------------------------------|------------------------------------------------|--------------------------------------------|
|                                                                      | <i>(In Thousands)</i>                                |                              |                                                |                                            |
| As at December 31, 2014                                              | ₱1,391,243                                           | ₱1,132,285                   | ₱—                                             | ₱258,958                                   |
| Net benefit expense (Note 24):                                       |                                                      |                              |                                                |                                            |
| Current service cost                                                 | 119,237                                              | —                            | —                                              | 119,237                                    |
| Net interest cost                                                    | 48,539                                               | 40,418                       | —                                              | 8,121                                      |
|                                                                      | 167,776                                              | 40,418                       | —                                              | 127,358                                    |
| Re-measurements in other comprehensive<br>income:                    |                                                      |                              |                                                |                                            |
| Return on plan assets (excluding amount<br>included in net interest) | —                                                    | (39,165)                     | —                                              | 39,165                                     |
| Actuarial changes arising from:                                      |                                                      |                              |                                                |                                            |
| Changes in financial assumptions                                     | (138,037)                                            | —                            | —                                              | (138,037)                                  |
| Changes in demographic assumptions                                   | (32,083)                                             | —                            | —                                              | (32,083)                                   |
| Experience adjustment                                                | 17,773                                               | —                            | —                                              | 17,773                                     |
| Others                                                               | —                                                    | —                            | (23)                                           | (23)                                       |
|                                                                      | (152,347)                                            | (39,165)                     | (23)                                           | (113,205)                                  |

*(Forward)*



|                                                                   | Present value<br>of Defined<br>Benefit<br>Obligation | Fair Value<br>of Plan Assets | Amount not<br>Recognized due<br>to Asset Limit | Defined<br>Benefit<br>Liability<br>(Asset) |
|-------------------------------------------------------------------|------------------------------------------------------|------------------------------|------------------------------------------------|--------------------------------------------|
| <i>(In Thousands)</i>                                             |                                                      |                              |                                                |                                            |
| Reclassifications from defined benefit assets                     | (P322,307)                                           | (P248,023)                   | P–                                             | (P74,284)                                  |
| Actual contributions                                              | –                                                    | 45,364                       | –                                              | (45,364)                                   |
| Benefits paid                                                     | (19,445)                                             | (19,445)                     | –                                              | –                                          |
| Transfer from related parties                                     | (2,788)                                              | (1,995)                      | –                                              | (793)                                      |
| Other adjustments                                                 | 15,546                                               | –                            | 23                                             | 15,569                                     |
| As at December 31, 2015                                           | <b>1,077,678</b>                                     | <b>909,439</b>               | –                                              | <b>168,239</b>                             |
| Net benefit expense (Note 24):                                    |                                                      |                              |                                                |                                            |
| Current service cost                                              | <b>257,285</b>                                       | –                            | –                                              | <b>257,285</b>                             |
| Net interest cost (income)                                        | <b>135,549</b>                                       | <b>136,016</b>               | <b>414</b>                                     | <b>(53)</b>                                |
|                                                                   | <b>392,834</b>                                       | <b>136,016</b>               | <b>414</b>                                     | <b>257,232</b>                             |
| Re-measurements in other comprehensive income:                    |                                                      |                              |                                                |                                            |
| Return on plan assets (excluding amount included in net interest) | –                                                    | (113,826)                    | –                                              | <b>113,826</b>                             |
| Actuarial changes arising from:                                   |                                                      |                              |                                                |                                            |
| Changes in financial assumptions                                  | (410,880)                                            | –                            | –                                              | (410,880)                                  |
| Changes in demographic assumptions                                | <b>7,708</b>                                         | –                            | –                                              | <b>7,708</b>                               |
| Experience adjustment                                             | <b>783,793</b>                                       | –                            | –                                              | <b>783,793</b>                             |
| Others                                                            | –                                                    | –                            | (8,615)                                        | (8,615)                                    |
|                                                                   | <b>380,621</b>                                       | (113,826)                    | (8,615)                                        | <b>485,832</b>                             |
| Reclassifications from defined benefit assets                     | <b>1,624,035</b>                                     | <b>1,843,862</b>             | –                                              | (219,827)                                  |
| Actual contributions                                              | –                                                    | <b>104,221</b>               | –                                              | (104,221)                                  |
| Benefits paid                                                     | (247,337)                                            | (247,111)                    | –                                              | (226)                                      |
| Transfer to (from) related parties                                | <b>36,790</b>                                        | <b>37,617</b>                | –                                              | (827)                                      |
| Other adjustments                                                 | –                                                    | –                            | <b>8,201</b>                                   | <b>8,201</b>                               |
| As at December 31, 2016                                           | <b>P3,264,621</b>                                    | <b>P2,670,218</b>            | <b>P–</b>                                      | <b>P594,403</b>                            |

b. Net Defined Benefit Asset

|                                                                   | Present value<br>of Defined<br>Benefit<br>Obligation | Fair Value<br>of Plan Assets | Amount not<br>Recognized Due<br>to Asset Limit | Defined<br>Benefit<br>Liability<br>(Asset) |
|-------------------------------------------------------------------|------------------------------------------------------|------------------------------|------------------------------------------------|--------------------------------------------|
| <i>(In Thousands)</i>                                             |                                                      |                              |                                                |                                            |
| As at December 31, 2014                                           | <b>P4,057,285</b>                                    | <b>P4,780,577</b>            | <b>P52,647</b>                                 | (P670,645)                                 |
| Net benefit expense (Note 24):                                    |                                                      |                              |                                                |                                            |
| Current service cost                                              | 414,934                                              | –                            | –                                              | 414,934                                    |
| Net interest cost (income)                                        | 201,414                                              | 234,083                      | 275                                            | (32,394)                                   |
|                                                                   | 616,348                                              | 234,083                      | 275                                            | 382,540                                    |
| Re-measurements in other comprehensive income:                    |                                                      |                              |                                                |                                            |
| Return on plan assets (excluding amount included in net interest) | –                                                    | (236,918)                    | –                                              | 236,918                                    |
| Actuarial changes arising from:                                   |                                                      |                              |                                                |                                            |
| Changes in financial assumptions                                  | (343,260)                                            | –                            | –                                              | (343,260)                                  |
| Changes in demographic assumptions                                | (6,143)                                              | –                            | –                                              | (6,143)                                    |
| Experience adjustment                                             | (102,260)                                            | –                            | –                                              | (102,260)                                  |
| Others                                                            | –                                                    | –                            | (37,636)                                       | (37,636)                                   |
|                                                                   | (451,663)                                            | (236,918)                    | (37,636)                                       | (252,381)                                  |
| Reclassifications to defined benefit assets                       | 322,306                                              | 248,023                      | (153)                                          | 74,130                                     |
| Actual contributions                                              | –                                                    | 154,306                      | –                                              | (154,306)                                  |
| Benefits paid                                                     | (160,471)                                            | (160,471)                    | –                                              | –                                          |
| Transfer to the plan                                              | 2,598                                                | 2,598                        | –                                              | –                                          |

(Forward)



|                                                                      | Present value<br>of Defined<br>Benefit<br>Obligation | Fair Value<br>of Plan Assets | Amount not<br>Recognized Due<br>to Asset Limit | Defined<br>Benefit<br>Liability<br>(Asset) |
|----------------------------------------------------------------------|------------------------------------------------------|------------------------------|------------------------------------------------|--------------------------------------------|
| <i>(In Thousands)</i>                                                |                                                      |                              |                                                |                                            |
| Amount not recognized due to asset limit                             | ₱—                                                   | ₱—                           | ₱7,760                                         | ₱7,760                                     |
| Other adjustments                                                    | —                                                    | (4,656)                      | (15,287)                                       | (10,631)                                   |
| As at December 31, 2015                                              | <b>4,386,403</b>                                     | <b>5,017,542</b>             | <b>7,606</b>                                   | <b>(623,533)</b>                           |
| Net benefit expense (Note 24):                                       |                                                      |                              |                                                |                                            |
| Current service cost                                                 | <b>320,358</b>                                       | —                            | —                                              | <b>320,358</b>                             |
| Net interest cost (income)                                           | <b>177,167</b>                                       | <b>214,192</b>               | <b>3,359</b>                                   | <b>(33,666)</b>                            |
|                                                                      | <b>497,525</b>                                       | <b>214,192</b>               | <b>3,359</b>                                   | <b>286,692</b>                             |
| Re-measurements in other comprehensive<br>income:                    |                                                      |                              |                                                |                                            |
| Return on plan assets (excluding amount<br>included in net interest) | —                                                    | (27,153)                     | —                                              | <b>27,153</b>                              |
| Actuarial changes arising from:                                      |                                                      |                              |                                                |                                            |
| Changes in financial assumptions                                     | (558,840)                                            | —                            | —                                              | (558,840)                                  |
| Changes in demographic assumptions                                   | 37,256                                               | —                            | —                                              | 37,256                                     |
| Experience adjustment                                                | 405,632                                              | —                            | —                                              | 405,632                                    |
| Others                                                               | —                                                    | —                            | 20,205                                         | 20,205                                     |
|                                                                      | <b>(115,952)</b>                                     | <b>(27,153)</b>              | <b>20,205</b>                                  | <b>(68,594)</b>                            |
| Reclassifications from defined benefit<br>liabilities                | (1,629,161)                                          | (1,843,294)                  | —                                              | 214,133                                    |
| Effect of common control business<br>combination (Note 5)            | 790,753                                              | 1,179,772                    | —                                              | (389,019)                                  |
| Actual contributions                                                 | —                                                    | 106,809                      | —                                              | (106,809)                                  |
| Benefits paid                                                        | (262,039)                                            | (262,039)                    | —                                              | —                                          |
| Transfer from the plan                                               | (5,728)                                              | (5,728)                      | —                                              | —                                          |
| Amount not recognized due to asset limit                             | —                                                    | —                            | 88,643                                         | 88,643                                     |
| Other adjustments                                                    | —                                                    | —                            | (31,171)                                       | (31,171)                                   |
| As at December 31, 2016                                              | <b>₱3,661,801</b>                                    | <b>₱4,380,101</b>            | <b>₱88,642</b>                                 | <b>(₱629,658)</b>                          |

The principal assumptions used in determining the pension obligations of the Group follow:

|                         | 2016       | 2015       |
|-------------------------|------------|------------|
| Discount rate           | 5.0%–6.0%  | 4.0%–6.0%  |
| Future salary increases | 3.0%–10.0% | 3.0%–10.0% |

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

|                                         | 2016              | 2015<br>(As restated -<br>Note 5) |
|-----------------------------------------|-------------------|-----------------------------------|
| <i>(In Thousands)</i>                   |                   |                                   |
| Cash and cash equivalents               | <b>₱891,526</b>   | ₱756,776                          |
| Investment in debt and other securities | <b>1,566,001</b>  | 1,144,828                         |
| Investment in common trust funds        | <b>2,442,878</b>  | 1,934,450                         |
| Investment in equity securities         | <b>274,988</b>    | 202,503                           |
| Investment in government securities     | <b>1,830,329</b>  | 1,848,486                         |
| Others                                  | <b>44,599</b>     | 39,939                            |
|                                         | <b>₱7,050,321</b> | ₱5,926,982                        |



- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 6.8% and 4.4% to 6.8% in 2016 and 2015, respectively. These have maturities from June 2019 to October 2025 and June 2019 to April 2025 in 2016 and 2015, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities consist of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2016 and 2015, respectively. These bonds have maturities ranging from January 2016 to December 2035 and January 2016 to November 2032 in 2016 and 2015, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank, as at and for the years ended December 31, 2016 and 2015, follow:

|                                                | 2016                  | 2015<br>(As restated -<br>Note 5) |
|------------------------------------------------|-----------------------|-----------------------------------|
|                                                | <i>(In Thousands)</i> |                                   |
| Balances:                                      |                       |                                   |
| Cash and cash equivalents                      | <b>₱891,526</b>       | ₱756,776                          |
| Investment in common trust funds               | <b>2,442,878</b>      | 1,934,450                         |
| Transactions:                                  |                       |                                   |
| Interest income from cash and cash equivalents | <b>6,092</b>          | 2,741                             |
| Gains from investment in common trust funds    | <b>(98,591)</b>       | (323,321)                         |

The Group expects to contribute about ₱967.8 million to its Pension Plan in 2017.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016, assuming all other assumptions were held constant:

|                         | Increase (Decrease)<br>in Basis Points | Increase (Decrease)<br>in Defined Benefit<br>Obligation |
|-------------------------|----------------------------------------|---------------------------------------------------------|
|                         | <i>(In Thousands)</i>                  |                                                         |
| Discount rates          | 50                                     | ₱487,520                                                |
|                         | (50)                                   | (420,572)                                               |
| Future salary increases | 100                                    | 859,869                                                 |
|                         | (100)                                  | (746,915)                                               |
| No attrition rate       | —                                      | 4,274,522                                               |

The average duration of the Group's defined benefit obligation is 3 to 29 years and 7 to 32 years as at December 31, 2016 and 2015, respectively.



The maturity analysis of the undiscounted benefit payments follows:

|             | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------|-----------------------|-----------------------------------|
|             | <i>(In Thousands)</i> |                                   |
| Year 1      | <b>₱640,937</b>       | ₱450,485                          |
| Year 2      | <b>170,006</b>        | 84,840                            |
| Year 3      | <b>240,637</b>        | 162,644                           |
| Year 4      | <b>324,347</b>        | 177,394                           |
| Year 5      | <b>468,230</b>        | 307,674                           |
| Year 6 – 10 | <b>2,553,717</b>      | 2,163,627                         |

The Group has no specific matching strategies between the Plan assets and the defined benefit obligation.

## 27. Income Tax

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

|                                                             | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                             | <i>(In Thousands)</i> |                                   |
| Deferred tax assets:                                        |                       |                                   |
| Excess of fair values over cost of investment properties    | <b>₱1,201,539</b>     | ₱1,166,570                        |
| NOLCO                                                       | <b>614,549</b>        | 461,561                           |
| Accrued leases                                              | <b>528,960</b>        | 477,025                           |
| Provision for doubtful accounts and others                  | <b>332,046</b>        | 150,502                           |
| Deferred rent expense                                       | <b>208,304</b>        | 234,954                           |
| Unamortized past service cost and defined benefit liability | <b>157,994</b>        | 105,482                           |
| MCIT                                                        | <b>13,963</b>         | 23,830                            |
|                                                             | <b>3,057,355</b>      | 2,619,924                         |
| Deferred tax liabilities:                                   |                       |                                   |
| Appraisal increment on investment property                  | <b>3,275,167</b>      | 3,522,218                         |
| Trademarks and brand names                                  | <b>1,879,000</b>      | 1,879,000                         |
| Capitalized interest                                        | <b>1,711,078</b>      | 1,396,868                         |
| Unrealized gross profit on sale of real estate              | <b>1,063,613</b>      | 1,217,472                         |
| Unamortized past service cost and defined benefit asset     | <b>261,941</b>        | 147,506                           |
| Accrued/deferred rent income                                | <b>174,436</b>        | 180,726                           |
| Others                                                      | <b>52,770</b>         | 214,172                           |
|                                                             | <b>8,418,005</b>      | 8,557,962                         |
| Net deferred tax liabilities                                | <b>₱5,360,650</b>     | ₱5,938,038                        |



The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

|                          | 2016                  | 2015<br>(As restated -<br>Note 5) |
|--------------------------|-----------------------|-----------------------------------|
|                          | <i>(In Thousands)</i> |                                   |
| Deferred tax assets      | <b>₱2,527,745</b>     | ₱2,619,924                        |
| Deferred tax liabilities | <b>7,888,395</b>      | 8,557,962                         |
|                          | <b>₱5,360,650</b>     | ₱5,938,038                        |

The Parent Company did not recognize any deferred tax asset on the following temporary differences and unused MCIT and NOLCO:

|                                      | 2016                  | 2015<br>(As restated -<br>Note 5) |
|--------------------------------------|-----------------------|-----------------------------------|
|                                      | <i>(In Thousands)</i> |                                   |
| NOLCO                                | <b>₱9,598,632</b>     | ₱6,723,420                        |
| Net unrealized foreign exchange loss | <b>676,033</b>        | 708,939                           |
| Allowance for impairment losses      | <b>120,805</b>        | 506,593                           |
| MCIT                                 | <b>252,131</b>        | 151,029                           |
| Past service cost                    | <b>178,627</b>        | 131,883                           |
| Non-refundable advance rentals       | <b>35,737</b>         | 32,864                            |
| Defined benefit liability            | <b>29,612</b>         | —                                 |
|                                      | <b>₱10,891,577</b>    | ₱8,254,728                        |

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax follow:

|                                                                  | 2016       | 2015 | 2014 |
|------------------------------------------------------------------|------------|------|------|
| Statutory income tax rate                                        | <b>30%</b> | 30%  | 30%  |
| Income tax effect of reconciling items:                          |            |      |      |
| Equity in net earnings of associate companies and joint ventures | <b>(8)</b> | (8)  | (8)  |
| Interest income subjected to final tax                           | <b>(2)</b> | (2)  | (2)  |
| Change in unrecognized deferred tax assets                       | <b>(1)</b> | 1    | (2)  |
| Others                                                           | —          | (1)  | (1)  |
| Effective income tax rates                                       | <b>19%</b> | 20%  | 17%  |

## 28. Lease Agreements

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



The future minimum lease receivables under the non-cancellable operating leases of the Group as at December 31 follow:

|                                             | 2016                 | 2015<br>(As restated -<br>Note 5) |
|---------------------------------------------|----------------------|-----------------------------------|
|                                             | <i>(In Millions)</i> |                                   |
| Within one year                             | <b>₱4,533</b>        | ₱3,812                            |
| After one year but not more than five years | <b>13,525</b>        | 8,551                             |
| More than five years                        | <b>4,990</b>         | 5,008                             |
|                                             | <b>₱23,048</b>       | ₱17,371                           |

*As Lessee.* The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

The Group also has various non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options. Some lease contracts provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The future minimum lease payables under the non-cancellable operating leases of the Group as at December 31 follow:

|                                             | 2016                 | 2015<br>(As restated -<br>Note 5) |
|---------------------------------------------|----------------------|-----------------------------------|
|                                             | <i>(In Millions)</i> |                                   |
| Within one year                             | <b>₱926</b>          | ₱1,200                            |
| After one year but not more than five years | <b>3,886</b>         | 4,720                             |
| More than five years                        | <b>27,863</b>        | 25,867                            |
|                                             | <b>₱32,675</b>       | ₱31,787                           |

Tenant's deposits amounted to ₱15,863.7 million and ₱14,010.2 million as at December 31, 2016 and 2015, respectively.

## 29. Financial Risk Management Objectives and Policies

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



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

The main risks arising from the Group's financial instruments are as follows:

- *Interest rate risk.* 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.
- *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 and China Yuan Renminbi.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make required payments.
- *Equity price risk.* The Group's exposure to equity price risk 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.

The BOD reviews and approves policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

#### Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

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

As at December 31, 2016 and 2015, after taking into account the effect of the swaps, approximately 76.9% and 74.4%, respectively of the Group's borrowings are kept at fixed interest rates.



*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 FVPL and AFS investments, respectively.

|                      | Increase<br>(Decrease)<br>in Basis Points | Effect<br>on Income<br>Before Tax | Effect on<br>Equity After<br>Income Tax |
|----------------------|-------------------------------------------|-----------------------------------|-----------------------------------------|
| <i>(In Millions)</i> |                                           |                                   |                                         |
| <b>2016</b>          | <b>100</b>                                | <b>(P678.3)</b>                   | <b>(P109.8)</b>                         |
|                      | <b>50</b>                                 | <b>(339.2)</b>                    | <b>(54.1)</b>                           |
|                      | <b>(100)</b>                              | <b>678.3</b>                      | <b>118.2</b>                            |
|                      | <b>(50)</b>                               | <b>339.2</b>                      | <b>59.9</b>                             |
| <b>2015</b>          | <b>100</b>                                | <b>(P612.1)</b>                   | <b>(P161.7)</b>                         |
|                      | <b>50</b>                                 | <b>(306.1)</b>                    | <b>(81.2)</b>                           |
|                      | <b>(100)</b>                              | <b>612.1</b>                      | <b>169.3</b>                            |
|                      | <b>(50)</b>                               | <b>306.1</b>                      | <b>84.3</b>                             |

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.

#### Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

|                                                          | 2016        |               | 2015        |               |
|----------------------------------------------------------|-------------|---------------|-------------|---------------|
|                                                          | US\$        | PhP           | US\$        | PhP           |
| <i>(In Thousands)</i>                                    |             |               |             |               |
| Current assets:                                          |             |               |             |               |
| Cash and cash equivalents                                | \$80,801    | P4,017,440    | \$3,364     | P158,297      |
| Time deposits                                            | 511,103     | 25,412,046    | 204,000     | 9,600,240     |
| Receivables                                              | 9,182       | 456,512       | 9,099       | 428,215       |
| AFS investments                                          | 50,192      | 2,495,550     | 3,810       | 179,282       |
| Noncurrent assets:                                       |             |               |             |               |
| AFS investments                                          | 53,574      | 2,663,696     | 104,874     | 4,935,357     |
| Time deposits                                            | 766,000     | 38,085,520    | 1,038,628   | 48,877,817    |
| Derivative assets                                        | 20,130      | 1,000,857     | 19,582      | 921,544       |
| Total foreign currency-denominated financial assets      | 1,490,982   | 74,131,621    | 1,383,357   | 65,100,752    |
| Current liabilities:                                     |             |               |             |               |
| Bank loans                                               | 60,000      | 2,983,200     | -           | -             |
| Current portion of long-term debt                        | 371,212     | 18,456,650    | 270,000     | 12,706,200    |
| Accounts payable and other current liabilities           | 9,907       | 492,565       | 9,951       | 468,280       |
| Noncurrent liabilities -                                 |             |               |             |               |
| Long-term debt - net of current portion                  | 1,354,650   | 67,353,221    | 1,880,502   | 88,496,402    |
| Total foreign currency-denominated financial liabilities | 1,795,769   | 89,285,636    | 2,160,453   | 101,670,882   |
| Net foreign currency-denominated financial liabilities   | (\$304,787) | (P15,154,015) | (\$777,096) | (P36,570,130) |

As at December 31, 2016 and 2015, approximately 41.8% and 44.5%, respectively, of the Group's borrowings are denominated in foreign-currency.



The Group recognized net foreign exchange loss of ₱170.1 million, net foreign exchange gain of ₱240.8 million and ₱179.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. This resulted from movements of the closing rates of U.S. dollar against the Philippine peso as shown in the following table:

|                          | U.S. Dollar<br>to Peso |
|--------------------------|------------------------|
| <b>December 31, 2016</b> | <b>₱49.72</b>          |
| December 31, 2015        | 47.06                  |
| December 31, 2014        | 44.72                  |

*Foreign Currency Risk Sensitivity Analysis.* The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, follow:

|             | Appreciation (Depreciation) of ₱ | Effect on Income Before Tax<br>(In Millions) |
|-------------|----------------------------------|----------------------------------------------|
| <b>2016</b> | <b>1.50</b>                      | <b>₱457.2</b>                                |
|             | <b>1.00</b>                      | <b>304.8</b>                                 |
|             | <b>(1.50)</b>                    | <b>(457.2)</b>                               |
|             | <b>(1.00)</b>                    | <b>(304.8)</b>                               |
| 2015        | 1.50                             | ₱1,165.6                                     |
|             | 1.00                             | 771.1                                        |
|             | (1.50)                           | (1,165.6)                                    |
|             | (1.00)                           | (771.1)                                      |

#### Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or proceeds from sales of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

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

|                                                                   | <b>2016</b>        | 2015<br>(As restated -<br>Note 5) |
|-------------------------------------------------------------------|--------------------|-----------------------------------|
|                                                                   | (In Thousands)     |                                   |
| Cash and cash equivalents                                         | <b>₱74,947,731</b> | ₱58,282,731                       |
| Current portion of time deposits                                  | <b>24,473,541</b>  | 9,611,405                         |
| Investments held for trading – bonds                              | <b>296,596</b>     | 279,359                           |
| Current portion of AFS investments -<br>Bonds and corporate notes | <b>2,495,550</b>   | 179,282                           |



The maturity profile of the Group's financial liabilities follow:

|                                                  | 2016                |                 |                      |              |
|--------------------------------------------------|---------------------|-----------------|----------------------|--------------|
|                                                  | Less than<br>1 Year | 1 to 5<br>Years | More than<br>5 Years | Total        |
|                                                  | (In Thousands)      |                 |                      |              |
| Bank loans                                       | ₱13,987,765         | ₱—              | ₱—                   | ₱13,987,765  |
| Accounts payable and other current liabilities * | 80,360,441          | —               | —                    | 80,360,441   |
| Long-term debt (including current portion) **    | 31,909,563          | 217,666,838     | 114,402,680          | 363,979,081  |
| Derivative liabilities**                         | 9,931               | —               | —                    | 9,931        |
| Dividends payable                                | 3,302,828           | —               | —                    | 3,302,828    |
| Tenants' deposits **                             | 319,928             | 15,059,576      | 608,712              | 15,988,216   |
| Other noncurrent liabilities ***                 | 211,547             | 4,236,885       | —                    | 4,448,432    |
|                                                  | ₱130,102,003        | ₱236,963,299    | ₱115,011,392         | ₱482,076,694 |

\*Excluding payable to government agencies of ₱2,949.7 million, which are not considered as financial liabilities.

\*\*Based on estimated future cash flows.

\*\*\*Excluding nonfinancial liabilities amounting ₱1,624.9 million.

|                                                  | 2015 (As restated - Note 5) |                 |                      |              |
|--------------------------------------------------|-----------------------------|-----------------|----------------------|--------------|
|                                                  | Less than<br>1 Year         | 1 to 5<br>Years | More than<br>5 Years | Total        |
|                                                  | (In Thousands)              |                 |                      |              |
| Bank loans                                       | ₱10,495,215                 | ₱—              | ₱—                   | ₱10,495,215  |
| Accounts payable and other current liabilities * | 77,004,002                  | —               | —                    | 77,004,002   |
| Long-term debt (including current portion) **    | 33,073,695                  | 205,142,322     | 88,156,618           | 326,372,635  |
| Dividends payable                                | 2,573,029                   | —               | —                    | 2,573,029    |
| Tenants' deposits **                             | 49,722                      | 13,710,751      | 268,170              | 14,028,643   |
| Other noncurrent liabilities ***                 | —                           | 3,420,984       | —                    | 3,420,984    |
|                                                  | ₱123,195,663                | ₱222,274,057    | ₱88,424,788          | ₱433,894,508 |

\*Excluding payable to government agencies of ₱3,844.7 million, which are not considered as financial liabilities.

\*\*Based on estimated future cash flows.

\*\*\*Excluding nonfinancial liabilities amounting ₱1,412.0 million.

### Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. 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 consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

As at December 31, 2016 and 2015, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

### Credit Quality of Financial Assets

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



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

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

|                                                                                                                                                                                                                                                                       | 2016                |                     |                     | 2015 (As restated - Note 5) |                     |                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                                                                                                                                                                                                                                                       | High<br>Quality     | Standard<br>Quality | Total               | High<br>Quality             | Standard<br>Quality | Total               |
| <i>(In Thousands)</i>                                                                                                                                                                                                                                                 |                     |                     |                     |                             |                     |                     |
| Cash and cash equivalents<br>(excluding cash on hand)                                                                                                                                                                                                                 | ₱73,348,682         | ₱—                  | ₱73,348,682         | ₱57,076,478                 | ₱—                  | ₱57,076,478         |
| Time deposits including<br>noncurrent portion                                                                                                                                                                                                                         | 66,514,768          | —                   | 66,514,768          | 62,739,174                  | —                   | 62,739,174          |
| Investments held for trading -<br>Bonds                                                                                                                                                                                                                               | 296,596             | —                   | 296,596             | 279,359                     | —                   | 279,359             |
| AFS investments                                                                                                                                                                                                                                                       | 21,783,484          | 51,905              | 21,835,389          | 21,938,533                  | 51,916              | 21,990,449          |
| Receivables - net (including<br>noncurrent portion of<br>receivables from real estate<br>buyers)                                                                                                                                                                      | 31,440,075          | 6,873,429           | 38,313,504          | 28,991,894                  | 6,719,394           | 35,711,288          |
| Advances and other receivables -<br>net (includes non-trade<br>receivables, advances and<br>deposits, receivable from<br>banks, notes receivable and<br>accrued interest receivable<br>under "Other current assets"<br>account in the consolidated<br>balance sheets) | 15,361,682          | —                   | 15,361,682          | 12,087,207                  | —                   | 12,087,207          |
| Escrow fund (including<br>noncurrent portion)                                                                                                                                                                                                                         | 342,434             | —                   | 342,434             | 570,099                     | —                   | 570,099             |
| Long-term notes (included under<br>"Other noncurrent assets"<br>account in the consolidated<br>balance sheets)                                                                                                                                                        | 6,876,128           | —                   | 6,876,128           | 927,000                     | —                   | 927,000             |
| Derivative assets (included under<br>"Other noncurrent assets"<br>account in the consolidated<br>balance sheets)                                                                                                                                                      | 6,757,361           | —                   | 6,757,361           | 3,964,807                   | —                   | 3,964,807           |
|                                                                                                                                                                                                                                                                       | <b>₱222,721,210</b> | <b>₱6,925,334</b>   | <b>₱229,646,544</b> | <b>₱188,574,551</b>         | <b>₱6,771,310</b>   | <b>₱195,345,861</b> |

#### Equity Price Risk

Management closely monitors the equity securities in its investment portfolio. 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 of a possible change in equity indices with all other variables held constant is as follows:

|                      | Change in<br>Equity Price | Effect on<br>Equity After<br>Income Tax |
|----------------------|---------------------------|-----------------------------------------|
| <i>(In Millions)</i> |                           |                                         |
| <b>2016</b>          | <b>+3.04%</b>             | <b>₱941.3</b>                           |
|                      | <b>-3.04%</b>             | <b>(941.3)</b>                          |
| <b>2015</b>          | <b>+9.0%</b>              | <b>₱2,268.7</b>                         |
|                      | <b>-9.0%</b>              | <b>(2,268.7)</b>                        |



### Capital Management

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

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

### *Net Gearing Ratio*

|                                                                                  | 2016                  | 2015<br>(As restated -<br>Note 5) |
|----------------------------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                                                  | <i>(In Thousands)</i> |                                   |
| Bank loans                                                                       | <b>₱13,987,765</b>    | ₱10,495,215                       |
| Long-term debt (current and noncurrent)                                          | <b>305,855,809</b>    | 271,162,069                       |
| Less:                                                                            |                       |                                   |
| Cash and cash equivalents<br>(excluding cash on hand)                            | <b>(73,348,682)</b>   | (57,076,478)                      |
| Time deposits (current and noncurrent)                                           | <b>(66,514,768)</b>   | (62,739,174)                      |
| AFS investments (bonds and corporate notes)                                      | <b>(4,893,300)</b>    | (4,866,562)                       |
| Investments held for trading - bonds                                             | <b>(296,596)</b>      | (279,359)                         |
| Net interest-bearing debt (a)                                                    | <b>174,790,228</b>    | 156,695,711                       |
| Equity attributable to owners of the Parent                                      | <b>300,483,382</b>    | 280,031,543                       |
| Net interest-bearing debt and equity attributable to<br>owners of the Parent (b) | <b>₱475,273,610</b>   | ₱436,727,254                      |
| Gearing ratio - net (a/b)                                                        | <b>37%</b>            | 36%                               |

### *Gross Gearing Ratio*

|                                                                                    | 2016                  | 2015<br>(As restated -<br>Note 5) |
|------------------------------------------------------------------------------------|-----------------------|-----------------------------------|
|                                                                                    | <i>(In Thousands)</i> |                                   |
| Bank loans                                                                         | <b>₱13,987,765</b>    | ₱10,495,215                       |
| Long-term debt                                                                     | <b>305,855,809</b>    | 271,162,069                       |
| Total interest-bearing debt (a)                                                    | <b>319,843,574</b>    | 281,657,284                       |
| Total equity attributable to owners of the Parent                                  | <b>300,483,382</b>    | 280,031,543                       |
| Total interest-bearing debt and equity attributable to<br>owners of the Parent (b) | <b>₱620,326,956</b>   | ₱561,688,827                      |
| Gearing ratio - gross (a/b)                                                        | <b>52%</b>            | 50%                               |



### 30. Financial Instruments

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

|                                                                                                      |                | 2016         |                                           |                                         |                                           |
|------------------------------------------------------------------------------------------------------|----------------|--------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
|                                                                                                      | Carrying Value | Fair value   | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <i>(In Thousands)</i>                                                                                |                |              |                                           |                                         |                                           |
| <b>Assets Measured at Fair Value</b>                                                                 |                |              |                                           |                                         |                                           |
| Financial assets at FVPL -                                                                           |                |              |                                           |                                         |                                           |
| Derivative assets                                                                                    | ₱6,757,361     | ₱6,757,361   | ₱-                                        | ₱6,757,361                              | ₱-                                        |
| <b>Assets for which Fair Values are Disclosed</b>                                                    |                |              |                                           |                                         |                                           |
| Loans and receivables:                                                                               |                |              |                                           |                                         |                                           |
| Time deposits - noncurrent portion                                                                   | 42,041,227     | 45,124,026   | -                                         | -                                       | 45,124,026                                |
| Receivables - net (including noncurrent portion of receivables from real estate buyers)              | 41,873,329     | 41,496,950   | -                                         | -                                       | 41,496,950                                |
| Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet) | 6,876,128      | 7,160,804    | -                                         | -                                       | 7,160,804                                 |
|                                                                                                      | 90,790,684     | 93,781,780   | -                                         | -                                       | 93,781,780                                |
|                                                                                                      | ₱97,548,045    | ₱100,539,141 | ₱-                                        | ₱6,757,361                              | ₱93,781,780                               |
| <b>Liabilities Measured at Fair Value</b>                                                            |                |              |                                           |                                         |                                           |
| Financial liabilities at FVPL -                                                                      |                |              |                                           |                                         |                                           |
| Derivative liabilities                                                                               | ₱9,931         | ₱9,931       | ₱-                                        | ₱9,931                                  | ₱-                                        |
| <b>Liabilities for which Fair Values are Disclosed</b>                                               |                |              |                                           |                                         |                                           |
| Other Financial Liabilities:                                                                         |                |              |                                           |                                         |                                           |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost)                           | 280,254,227    | 290,118,678  | -                                         | -                                       | 290,118,678                               |
| Tenants' deposits and others*                                                                        | 21,518,256     | 20,841,472   | -                                         | -                                       | 20,841,472                                |
|                                                                                                      | 301,772,483    | 310,960,150  | -                                         | -                                       | 310,960,150                               |
|                                                                                                      | ₱301,782,414   | ₱310,970,081 | ₱-                                        | ₱9,931                                  | ₱310,960,150                              |

\*Excluding nonfinancial liabilities amounting to ₱1,624.9 million.

|                                                                                                      |                | 2015 (As restated - Note 5) |                                           |                                         |                                           |
|------------------------------------------------------------------------------------------------------|----------------|-----------------------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
|                                                                                                      | Carrying Value | Fair value                  | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <i>(In Thousands)</i>                                                                                |                |                             |                                           |                                         |                                           |
| <b>Assets Measured at Fair Value</b>                                                                 |                |                             |                                           |                                         |                                           |
| Financial assets at FVPL -                                                                           |                |                             |                                           |                                         |                                           |
| Derivative assets                                                                                    | ₱3,964,807     | ₱3,964,807                  | ₱-                                        | ₱3,964,807                              | ₱-                                        |
| <b>Assets for which Fair Values are Disclosed</b>                                                    |                |                             |                                           |                                         |                                           |
| Loans and receivables:                                                                               |                |                             |                                           |                                         |                                           |
| Time deposits - noncurrent portion                                                                   | 53,127,769     | 57,332,807                  | -                                         | -                                       | 57,332,807                                |
| Receivables - net (including noncurrent portion of receivables from real estate buyers)              | 39,522,157     | 39,393,033                  | -                                         | -                                       | 39,393,033                                |
| Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet) | 927,000        | 940,801                     | -                                         | -                                       | 940,801                                   |
|                                                                                                      | 93,576,926     | 97,666,641                  | -                                         | -                                       | 97,666,641                                |
|                                                                                                      | ₱97,541,733    | ₱101,631,448                | ₱-                                        | ₱3,964,807                              | ₱97,666,641                               |



| 2015 (As restated - Note 5)                                                |                |              |                                           |                                         |                                           |
|----------------------------------------------------------------------------|----------------|--------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
|                                                                            | Carrying Value | Fair value   | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <i>(In Thousands)</i>                                                      |                |              |                                           |                                         |                                           |
| <b>Liabilities for which Fair Values are Disclosed</b>                     |                |              |                                           |                                         |                                           |
| Other Financial Liabilities:                                               |                |              |                                           |                                         |                                           |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost) | ₱245,167,269   | ₱265,886,763 | ₱—                                        | ₱—                                      | ₱265,886,763                              |
| Tenants' deposits and others*                                              | 19,434,327     | 19,341,519   | —                                         | —                                       | 19,341,519                                |
|                                                                            | ₱264,601,596   | ₱285,228,282 | ₱—                                        | ₱—                                      | ₱285,228,282                              |

\*Excluding nonfinancial liabilities amounting to ₱1,412.0 million.

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2016 and 2015.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

|                                                                  | 2016      | 2015      |
|------------------------------------------------------------------|-----------|-----------|
| Noncurrent portion of time deposits                              | 1.3%–2.2% | 0.9%–2.1% |
| Noncurrent portion of receivables from real estate buyers        | 4.4%      | 4.1%      |
| Long-term notes included under “Other noncurrent assets” account | 1.5%–4.0% | 2.0%–3.5% |
| Tenants' deposits                                                | 1.9%–5.0% | 2.1%–4.5% |

*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 1.0% to 5.9% and 0.6% to 5.6% as at December 31, 2016 and 2015, 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 were 2.3% to 4.6% and 2.0% to 4.0% as at December 31, 2016 and 2015, respectively. |



*Derivative Instruments.* The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

|                                           | 2016                  | 2015<br>(As restated -<br>Note 5) |
|-------------------------------------------|-----------------------|-----------------------------------|
|                                           | <i>(In Thousands)</i> |                                   |
| Balance at beginning of year              | <b>₱3,964,807</b>     | ₱1,404,621                        |
| Net changes in fair value during the year | <b>2,685,500</b>      | 1,090,570                         |
| Fair value on settled derivatives         | <b>107,054</b>        | 226,214                           |
| Transferred to additional paid-in capital | —                     | 1,243,402                         |
| Balance at end of year                    | <b>₱6,757,361</b>     | ₱3,964,807                        |

#### Derivative Instruments Accounted for as Cash Flow Hedges

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

Under the floating-to-fixed cross-currency swap, the hedged U.S. Dollar-denominated loans have been converted into Philippine peso:

- Swap the face amount of the loans in US\$ for their agreed Philippine peso equivalents with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest in the Philippine peso notional amount and receive floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with interest payments on the hedged loans.

The outstanding hedged loans follow:

|                    | Principal Balance     |                 |
|--------------------|-----------------------|-----------------|
|                    | <i>(In US\$)</i>      | <i>(In PhP)</i> |
|                    | <i>(In Thousands)</i> |                 |
| Parent -           |                       |                 |
| Unsecured loans    | US\$180,000           | ₱8,949,600      |
| SM Prime:          |                       |                 |
| Unsecured loan     | 530,000               | 26,341,282      |
| Unsecured advances | 200,000               | 9,932,536       |

Details of the cross-currency swaps follow:

|                   | Notional Amount       |                 |                       |      | US\$:₱ |              |                       |
|-------------------|-----------------------|-----------------|-----------------------|------|--------|--------------|-----------------------|
|                   | <i>(In US\$)</i>      | <i>(In PhP)</i> | Receive               | Pay  | Rate   | Maturity     | Fair Value            |
|                   | <i>(In Thousands)</i> |                 |                       |      |        |              | <i>(In Thousands)</i> |
| Parent:           |                       |                 |                       |      |        |              |                       |
| Floating-to-Fixed | US\$50,000            | ₱2,059,250      | 6M US LIBOR + 170 bps | 4.1% | ₱41.19 | May 15, 2018 | ₱462,084              |
| Floating-to-Fixed | 60,000                | 2,478,000       | 6M US LIBOR + 170 bps | 4.0% | 41.30  | May 15, 2018 | 548,160               |
| Floating-to-Fixed | 70,000                | 2,888,200       | 6M US LIBOR + 170 bps | 4.0% | 41.26  | May 15, 2018 | 644,382               |

*(Forward)*



|                   | Notional Amount |           | Receive               | Pay  | US\$:₱<br>Rate | Maturity         | Fair Value<br>(In Thousands) |
|-------------------|-----------------|-----------|-----------------------|------|----------------|------------------|------------------------------|
|                   | (In US\$)       | (In Ph₱)  |                       |      |                |                  |                              |
|                   | (In Thousands)  |           |                       |      |                |                  |                              |
| SM Prime:         |                 |           |                       |      |                |                  |                              |
| Floating-to-Fixed | 200,000         | 8,134,000 | 6M US LIBOR + 170 bps | 3.7% | ₱40.67         | January 29, 2018 | ₱1,927,021                   |
| Floating-to-Fixed | 150,000         | 6,165,000 | 6M US LIBOR + 170 bps | 3.9% | 41.10          | March 25, 2018   | 1,351,132                    |

*Principal Only Swaps.* In 2016, SM Prime entered into principal only swap transactions to hedge the foreign-currency exposure on its U.S. Dollar-denominated five-year term syndicated loans and advances (the hedged loans and advances).

The outstanding hedged loans and advances follow:

|                | Notional Amount<br>(In Thousands) | US\$:₱ Rate | Maturity         | Fair Value |
|----------------|-----------------------------------|-------------|------------------|------------|
| Principal only | US\$150,000                       | 6.528-6.569 | March 23, 2018   | ₱478,010   |
| Principal only | 180,000                           | 6.458-6.483 | January 29, 2021 | 883,752    |
| Principal only | 50,000                            | 6.514       | August 30, 2017  | 156,236    |

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

#### Other Derivative Instruments Not Designated as Accounting Hedges

*Options Arising from Long-term Notes.* The Parent Company entered into a loan agreement with Atlas. The loan contains multiple embedded derivatives such as conversion, call and put options. The conversion option pertains to the right of the Parent Company to convert the loan into common shares of Atlas at the conversion price of ₱8.29 per share at any time beginning July 21, 2015 until June 2, 2018. The call option pertains to the right of Atlas to early redeem the loan, in whole but not in part, on or after December 9, 2016 subject to the conditions stated in the loan agreement. On the other hand, the put option pertains to the right of the Parent Company to require Atlas to redeem all or some of the loan at their prepayment amount on the date fixed for prepayment beginning June 9, 2016. As at December 31, 2016, all outstanding embedded derivatives have nil values.

*Interest Rate Swaps.* In 2013, SM Prime entered into two floating-to-fixed Philippine Peso interest rate swap agreements with a notional amount of ₱175.0 million each to offset the cash flows of the two fixed-to-floating Philippine peso interest rate swaps entered into in 2010. The loans bear interest based on LIBOR plus spread, with bullet maturity on March 25, 2018 and January 24, 2018, respectively (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱2.0 million gain in 2015.

In 2011, SM Prime entered into floating-to-fixed US\$ interest rate swap agreements with aggregate 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 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱38.0 million gain in 2015.

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

- A US\$ interest rate swap agreement with a nominal amount of US\$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment terms up to



November 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱19.0 million gain in 2015.

- Two Philippine peso interest rate swap agreements with a notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The consolidated net cash flow of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment terms up to June 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱31.0 million loss in 2015.

*Non-deliverable Forwards and Swaps.* In 2016 and 2015, the Parent Company and SM Prime entered into sell ₱ and buy US\$ forward contracts, as well as sell US\$ and ₱ with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statement of income amounted to ₱40.2 million gain and ₱20.5 million gain in 2016 and 2015, respectively.

### 31. EPS Computation

|                                                             | 2016                                        | 2015<br>(As restated -<br>Note 5) | 2014<br>(As restated -<br>Note 5) |
|-------------------------------------------------------------|---------------------------------------------|-----------------------------------|-----------------------------------|
|                                                             | <i>(In Thousands Except Per Share Data)</i> |                                   |                                   |
| Net income attributable to owners of the Parent (a)         | <b>₱31,204,304</b>                          | ₱28,865,157                       | ₱28,385,190                       |
| Weighted average number of common shares<br>outstanding (b) | <b>1,204,583</b>                            | 1,199,004                         | 1,197,844                         |
| <b>EPS (a/b)</b>                                            | <b>₱25.90</b>                               | ₱24.07                            | ₱23.70                            |

### 32. Reclassification

The Group reclassified certain consolidated balance sheet accounts as at December 31, 2015 and 2014 and consolidated statement of income accounts in 2015 and 2014 to conform to the 2016 consolidated financial statements presentation and classification. The reclassification was made to present tenants' deposits and others from other noncurrent liabilities to current liabilities. The reclassification has no impact on the 2015 and 2014 profit or loss and equity of the Group.



**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2016**

**Consolidated Financial Statements**

|                                                                                                                              |          |
|------------------------------------------------------------------------------------------------------------------------------|----------|
| A. Statement of Management's Responsibility for Financial Statements                                                         | Attached |
| B. Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to Financial Statements | Attached |
| C. Independent Auditor's Report                                                                                              | Attached |
| D. Consolidated Balance Sheets as at December 31, 2016, 2015 and 2014                                                        | Attached |
| E. Consolidated Statements of Income<br>For the years ended December 31, 2016, 2015 and 2014                                 | Attached |
| F. Consolidated Statements of Comprehensive Income<br>For the years ended December 31, 2016, 2015 and 2014                   | Attached |
| G. Consolidated Statements of Changes in Stockholders' Equity<br>For the years ended December 31, 2016, 2015 and 2014        | Attached |
| H. Consolidated Statements of Cash Flows<br>For the years ended December 31, 2016, 2015 and 2014                             | Attached |
| I. Notes to Consolidated Financial Statements                                                                                | Attached |

**Supplementary Schedules**

|                                                         |          |
|---------------------------------------------------------|----------|
| Independent Auditors' Report on Supplementary Schedules | Attached |
|---------------------------------------------------------|----------|

**SRC Annex 68-E Schedules**

|                                                                                                                                    |          |
|------------------------------------------------------------------------------------------------------------------------------------|----------|
| A. Financial Assets                                                                                                                | Attached |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties) | *        |
| C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements                   | Attached |
| D. Intangible Assets - Other Assets                                                                                                | Attached |
| E. Long-term Debt                                                                                                                  | *        |
| F. Indebtedness to Related Parties                                                                                                 | *        |
| G. Guarantees of Securities of Other Issuers                                                                                       | *        |
| H. Capital Stock                                                                                                                   | Attached |

**Additional Components**

|                                                                            |          |
|----------------------------------------------------------------------------|----------|
| Computation of Public Ownership                                            | Attached |
| Financial Ratios - Key Performance Indicators                              | Attached |
| Reconciliation of Retained Earnings Available for Dividend Declaration     | Attached |
| Conglomerate Map                                                           | Attached |
| Tabular Schedule of Effective Standards and Interpretations under the PFRS | Attached |

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

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE A – FINANCIAL ASSETS**  
**AS AT DECEMBER 31, 2016**  
**(Amounts in Thousands Except Per Share Data)**

| <b>Name of Issuing Entity and<br/>Description of Each Issue</b> | <b>Number of Shares or<br/>Principal Amount of<br/>Bonds and Notes</b> | <b>Amount Shown in the<br/>Balance Sheet</b> | <b>Value Based on Market<br/>Quotations at Balance<br/>Sheet Date</b> | <b>Interest and Dividend<br/>Income Received<br/>and Accrued</b> |
|-----------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------------|
| <b>Temporary investments:</b>                                   |                                                                        |                                              |                                                                       |                                                                  |
| BDO Unibank, Inc.                                               |                                                                        | ₱46,399,685                                  | ₱–                                                                    | ₱460,911                                                         |
| China Banking Corporation                                       |                                                                        | 12,726,845                                   | –                                                                     | 25,806                                                           |
| Others                                                          |                                                                        | 7,560,693                                    | –                                                                     | 428,747                                                          |
|                                                                 |                                                                        | 66,687,223                                   | –                                                                     | 915,464                                                          |
| <b>Time deposits – current</b>                                  |                                                                        | 24,473,541                                   | –                                                                     | 382,044                                                          |
| <b>Investments held for trading and sale:</b>                   |                                                                        |                                              |                                                                       |                                                                  |
| Bonds and Corporate Notes:                                      |                                                                        |                                              |                                                                       |                                                                  |
| Peso Bonds                                                      | ₱30,000                                                                | 30,649                                       | 30,649                                                                | 1,613                                                            |
| Dollar Bonds                                                    | US\$54,180                                                             | 2,761,497                                    | 2,761,497                                                             | 181,971                                                          |
| Shares of Stock:                                                |                                                                        |                                              |                                                                       |                                                                  |
| Common shares:                                                  |                                                                        |                                              |                                                                       |                                                                  |
| Shang Properties, Inc.                                          | 189,550,548 shares                                                     | 616,039                                      | 616,039                                                               | 31,276                                                           |
| Republic Glass Holdings Corporation                             | 14,403,000 shares                                                      | 37,736                                       | 37,736                                                                | 2,161                                                            |
| PICOP Resources, Inc.                                           | 40,000,000 shares                                                      | 8,200                                        | 8,200                                                                 | –                                                                |
| Export and Industry Bank, Inc.                                  | 7,829,000 shares                                                       | 2,036                                        | 2,036                                                                 | –                                                                |
| Benguet Corporation                                             | 266,757 shares                                                         | 595                                          | 595                                                                   | –                                                                |
|                                                                 |                                                                        | 3,456,752                                    | 3,456,752                                                             | 217,021                                                          |
| <b>Total Current Financial Assets</b>                           |                                                                        | <b>₱94,617,516</b>                           | <b>₱3,456,752</b>                                                     | <b>₱1,514,529</b>                                                |

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet | Value Based on Market Quotations at Balance Sheet Date | Interest and Dividend Income Received and Accrued |
|------------------------------------------------------|---------------------------------------------------------|-----------------------------------|--------------------------------------------------------|---------------------------------------------------|
| <b>Available-for-sale investments – noncurrent:</b>  |                                                         |                                   |                                                        |                                                   |
| Shares of Stock                                      |                                                         |                                   |                                                        |                                                   |
| Listed:                                              |                                                         |                                   |                                                        |                                                   |
| Ayala Corporation                                    | 20,987,551 shares                                       | ₱15,331,407                       | ₱15,331,406                                            | ₱120,888                                          |
| Manila Electric Company                              | 58,925 shares                                           | 7,761                             | 7,761                                                  | –                                                 |
| Philippine Long Distance Telephone Company           | 292,611 shares                                          | 3,003                             | 3,003                                                  | 100                                               |
| Philippine Bank of Communications                    | 13,431 shares                                           | 332                               | 332                                                    | –                                                 |
| Prime Media Holdings, Inc.                           | 500,000 shares                                          | 565                               | 565                                                    | –                                                 |
| The Philippine Stock Exchange, Inc.                  | 3,595,639 shares                                        | 857,200                           | 857,200                                                | 13,459                                            |
| Unlisted:                                            |                                                         |                                   |                                                        |                                                   |
| Ace Hardware International Holdings, Inc.            | 10,182 shares                                           | 47,997                            | –                                                      | –                                                 |
| Allfirst Equity Holdings, Inc.                       | 95,000 shares                                           | 9,500                             | –                                                      | –                                                 |
| Heavenly Garden Development Corp.                    | 25,000 shares                                           | 2,500                             | –                                                      | –                                                 |
| SM Insurance Brokers Services, Inc.                  | 129,390 shares                                          | 150                               | –                                                      | –                                                 |
| Mutual Development Center, Inc.                      | 4,633 shares                                            | 1,258                             | –                                                      | –                                                 |
|                                                      |                                                         | 16,261,673                        | 16,200,267                                             | 134,447                                           |

(Forward)

| <b>Name of Issuing Entity and Description of Each Issue</b> | <b>Number of Shares or Principal Amount of Bonds and Notes</b> | <b>Amount Shown in the Balance Sheet</b> | <b>Value Based on Market Quotations at Balance Sheet Date</b> | <b>Interest and Dividend Income Received and Accrued</b> |
|-------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------|
| Bonds and corporate notes -                                 |                                                                |                                          |                                                               |                                                          |
| Corporate Bonds                                             | US\$46,000                                                     | ₱2,397,750                               | ₱2,397,750                                                    | ₱165,398                                                 |
| Club Shares                                                 |                                                                |                                          |                                                               |                                                          |
| Cebu Golf & Country Club                                    | 1 share                                                        | 5,500                                    | 5,500                                                         | —                                                        |
| Baguio Country Club                                         | 1 share                                                        | 2,000                                    | 2,000                                                         | —                                                        |
| Country Club of Tagaytay Highlands                          | 5 shares                                                       | 1,230                                    | 1,230                                                         | —                                                        |
| Mimosa Golf & Country Club, Inc.                            | 1 share                                                        | 400                                      | 400                                                           | —                                                        |
| Camp John Hay                                               | 2 shares                                                       | 250                                      | 250                                                           | —                                                        |
| Subic Bay Yacht Club                                        | 1 share                                                        | 200                                      | 200                                                           | —                                                        |
| Splendido Taal Golf Club                                    | 1 share                                                        | 80                                       | 80                                                            | —                                                        |
| Calatagan Golf Club                                         | 1 share                                                        | 50                                       | 50                                                            | —                                                        |
| Cresta del Mar                                              | 1 share                                                        | 35                                       | 35                                                            | —                                                        |
| Ridge Resort                                                | 1 share                                                        | 15                                       | 15                                                            | —                                                        |
| Tagaytay Midlands Golf Club                                 | 11 shares                                                      | 6,050                                    | 6,050                                                         | —                                                        |
|                                                             |                                                                | 15,810                                   | 15,810                                                        | —                                                        |
|                                                             |                                                                | <b>18,675,233</b>                        | <b>18,613,827</b>                                             | <b>299,845</b>                                           |
| <b>Time Deposits – noncurrent</b>                           |                                                                | <b>42,041,227</b>                        | <b>—</b>                                                      | <b>1,681,839</b>                                         |
| <b>Total Noncurrent Financial Assets</b>                    |                                                                | <b>₱60,716,460</b>                       | <b>₱18,613,827</b>                                            | <b>₱1,981,684</b>                                        |

Schedule A

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL**  
**STATEMENTS**  
**AS AT DECEMBER 31, 2016**  
**(Amounts in Thousands)**

| <b>Name and Designation of Debtor</b>       | <b>Balance at<br/>beginning of<br/>year</b> | <b>Additions</b> | <b>Amounts<br/>collected</b> | <b>Amounts<br/>written off</b> | <b>Current</b> | <b>Not<br/>current</b> | <b>Balance at end of<br/>year</b> |
|---------------------------------------------|---------------------------------------------|------------------|------------------------------|--------------------------------|----------------|------------------------|-----------------------------------|
| <b><u>Accounts receivable – Tenants</u></b> |                                             |                  |                              |                                |                |                        |                                   |
| Sanford Marketing Corporation               | ₱68,121                                     | ₱383,079         | ₱394,327                     | ₱–                             | ₱56,873        | ₱–                     | ₱56,873                           |
| Mainstream Business, Inc.                   | 83,919                                      | 366,948          | 366,557                      | –                              | 84,310         | –                      | 84,310                            |
| Market Strategic Firm, Inc.                 | 83,328                                      | 330,071          | 325,689                      | –                              | 87,710         | –                      | 87,710                            |
| Major Shopping Management Corporation       | 51,194                                      | 217,909          | 219,759                      | –                              | 49,344         | –                      | 49,344                            |
| Metro Main Star Asia Corp.                  | 55,632                                      | 256,292          | 238,104                      | –                              | 73,820         | –                      | 73,820                            |
| Meridien Business Leader, Inc.              | 49,757                                      | 195,231          | 186,028                      | –                              | 58,960         | –                      | 58,960                            |
| Madison Shopping Plaza, Inc.                | 66,096                                      | 273,978          | 269,004                      | –                              | 71,070         | –                      | 71,070                            |
| Multi Stores Corporation                    | 24,580                                      | 150,512          | 147,886                      | –                              | 27,206         | –                      | 27,206                            |
| Mandurriao Star, Inc.                       | 81,367                                      | 308,007          | 305,694                      | –                              | 83,680         | –                      | 83,680                            |
| Metro Manila Shopping Mecca Corp.           | 55,298                                      | 240,782          | 233,244                      | –                              | 62,836         | –                      | 62,836                            |
| Mercantile Stores Group, Inc.               | 81,845                                      | 325,372          | 322,944                      | –                              | 84,273         | –                      | 84,273                            |
| Mindanao Shopping Destination Corp.         | 19,422                                      | 73,973           | 73,414                       | –                              | 19,981         | –                      | 19,981                            |
| Manila Southern Associates, Inc.            | 68,786                                      | 287,214          | 284,657                      | –                              | 71,343         | –                      | 71,343                            |
| My Shoppinglane Cebu Corp.                  | 18,403                                      | 49,217           | 49,261                       | –                              | 18,359         | –                      | 18,359                            |
| Mindanao Shoppers Daily Destination Corp.   | 19,404                                      | 72,373           | 70,557                       | –                              | 21,220         | –                      | 21,220                            |

*(Forward)*

| <b>Name and Designation of Debtor</b>      | <b>Balance at beginning of year</b> | <b>Additions</b> | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Current</b> | <b>Not current</b> | <b>Balance at end of year</b> |
|--------------------------------------------|-------------------------------------|------------------|--------------------------|----------------------------|----------------|--------------------|-------------------------------|
| SM Mart, Inc.                              | ₱96,591                             | ₱538,188         | ₱555,581                 | ₱—                         | ₱79,198        | ₱—                 | ₱79,198                       |
| Supervalve, Inc.                           | 415,722                             | 2,949,296        | 2,930,926                | —                          | 434,092        | —                  | 434,092                       |
| Super Shopping Market, Inc.                | 239,925                             | 1,764,309        | 1,767,997                | —                          | 236,237        | —                  | 236,237                       |
| SM Retail, Inc.                            | 605                                 | 58,592           | 51,603                   | —                          | 7,594          | —                  | 7,594                         |
| Accessories_Management Corp.               | 326                                 | 2,236            | 2,227                    | —                          | 335            | —                  | 335                           |
| CF_Mgt. Corp.                              | 408                                 | 2,894            | 2,865                    | —                          | 437            | —                  | 437                           |
| LF_Mgt. Corp.                              | 487                                 | 3,578            | 3,539                    | —                          | 526            | —                  | 526                           |
| Shoemart, Inc. (formerly LTBG_Mgmt. Corp.) | 1,334                               | 9,355            | 10,230                   | —                          | 459            | —                  | 459                           |
| MF_Mgt. Corp.                              | 482                                 | 2,886            | 2,930                    | —                          | 438            | —                  | 438                           |
| MCLG_Mgmt. Corp.                           | 205                                 | 1,463            | 1,447                    | —                          | 221            | —                  | 221                           |
| Forever Agape and Glory, Inc.              | 27,937                              | 186,135          | 181,643                  | —                          | 32,429         | —                  | 32,429                        |
| Ace Hardware Philippines, Inc.             | 124,494                             | 1,133,923        | 1,119,093                | —                          | 139,324        | —                  | 139,324                       |
| CK Fashion Collection Corp.                | —                                   | 241              | 241                      | —                          | —              | —                  | —                             |
| Homeworld Shopping Corporation             | 32,318                              | 324,267          | 318,511                  | —                          | 38,074         | —                  | 38,074                        |
| International Toy World, Inc.              | 44,656                              | 268,549          | 261,775                  | —                          | 51,430         | —                  | 51,430                        |
| Kultura Store, Inc.                        | —                                   | 64,437           | 55,725                   | —                          | 8,712          | —                  | 8,712                         |
| Nursery Care Corporation                   | 2,537                               | 39,122           | 36,222                   | —                          | 5,437          | —                  | 5,437                         |
| Signature Lines, Inc.                      | 2,109                               | 26,095           | 24,567                   | —                          | 3,637          | —                  | 3,637                         |
| Sports Central (Manila), Inc.              | 12,652                              | 109,451          | 104,155                  | —                          | 17,948         | —                  | 17,948                        |
| Star Appliance Center, Inc.                | 93,654                              | 817,851          | 809,064                  | —                          | 102,441        | —                  | 102,441                       |
| Supplies Station, Inc.                     | 954                                 | 5,591            | 6,446                    | —                          | 99             | —                  | 99                            |

(Forward)

Schedule C

| <b>Name and Designation of Debtor</b>    | <b>Balance at<br/>beginning of<br/>year</b> | <b>Additions</b>   | <b>Amounts<br/>collected</b> | <b>Amounts<br/>written off</b> | <b>Current</b>    | <b>Not<br/>current</b> | <b>Balance at end of<br/>year</b> |
|------------------------------------------|---------------------------------------------|--------------------|------------------------------|--------------------------------|-------------------|------------------------|-----------------------------------|
| Premium Global Essences Stores Inc       | ₱–                                          | ₱28,612            | ₱24,466                      | ₱–                             | ₱4,146            | ₱–                     | ₱4,146                            |
| Walk EZ Retail Corp.                     | –                                           | 14,637             | 9,155                        | –                              | 5,482             | –                      | 5,482                             |
| Costa del Hamilo, Inc.                   | 472                                         | 4,758              | 4,994                        | –                              | 236               | –                      | 236                               |
| Manila Southcoast Development Corp.      | 109                                         | 219                | 219                          | –                              | 109               | –                      | 109                               |
| SM Prime Holdings, Inc.                  | –                                           | 72,009             | 72,009                       | –                              | –                 | –                      | –                                 |
| SM Hotels and Conventions Corp.          | 955                                         | 7,219              | 8,174                        | –                              | –                 | –                      | –                                 |
| Highlands Prime, Inc.                    | –                                           | 4,659              | 4,318                        | –                              | 341               | –                      | 341                               |
| Intercontinental Development Corp.       | –                                           | 462                | 462                          | –                              | –                 | –                      | –                                 |
| SM Investments Corporation               | 1,170                                       | 47,870             | 41,253                       | –                              | 7,787             | –                      | 7,787                             |
| <b>Total Accounts Receivable-Tenants</b> | <b>₱1,927,254</b>                           | <b>₱12,019,862</b> | <b>₱11,898,962</b>           | <b>₱–</b>                      | <b>₱2,048,154</b> | <b>₱–</b>              | <b>₱2,048,154</b>                 |

| <b>Name and Designation of Debtor</b>                                   | <b>Balance at<br/>beginning of<br/>year</b> | <b>Additions</b> | <b>Amounts<br/>collected</b> | <b>Amounts<br/>written off</b> | <b>Current</b>     | <b>Not<br/>current</b> | <b>Balance at end of<br/>year</b> |
|-------------------------------------------------------------------------|---------------------------------------------|------------------|------------------------------|--------------------------------|--------------------|------------------------|-----------------------------------|
| <b><u>Due From Related Parties</u></b>                                  |                                             |                  |                              |                                |                    |                        |                                   |
| Belleshares Holdings, Inc. (formerly SM<br>Commercial Properties, Inc.) | ₱518,577                                    | ₱—               | ₱—                           | ₱—                             | ₱518,577           | ₱—                     | ₱518,577                          |
| Intercontinental Development Corporation                                | 425,000                                     | —                | 18,577                       | —                              | 406,423            | —                      | 406,423                           |
| Mountain Bliss Resort and Development Corp. and<br>a subsidiary         | 3,183,785                                   | —                | —                            | —                              | 3,183,785          | —                      | 3,183,785                         |
| Multi Realty Development Corporation                                    | 10,108,839                                  | —                | —                            | —                              | 10,108,839         | —                      | 10,108,839                        |
| Tagaytay Resort Development Corporation                                 | 26,705                                      | —                | 26,705                       | —                              | —                  | —                      | —                                 |
| Sto. Roberto Marketing Corp.                                            | 12,500                                      | —                | —                            | —                              | 12,500             | —                      | 12,500                            |
| <b>Total Due From Related Parties</b>                                   | <b>₱14,275,406</b>                          | <b>₱—</b>        | <b>₱45,282</b>               | <b>₱—</b>                      | <b>₱14,230,124</b> | <b>₱—</b>              | <b>₱14,230,124</b>                |

| <b>Accounts receivable—management and service fees</b>               | <b>Balance at beginning of year</b> | <b>Additions</b>  | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Current</b>  | <b>Not current</b> | <b>Balance at end of year</b> |
|----------------------------------------------------------------------|-------------------------------------|-------------------|--------------------------|----------------------------|-----------------|--------------------|-------------------------------|
| Sanford Marketing Corporation                                        | ₱1,494                              | ₱202,987          | ₱202,501                 | ₱—                         | ₱1,980          | ₱—                 | ₱1,980                        |
| Mainstream Business, Inc.                                            | —                                   | 161,598           | 161,598                  | —                          | —               | —                  | —                             |
| Market Strategic Firm, Inc.                                          | —                                   | 148,662           | 148,662                  | —                          | —               | —                  | —                             |
| Major Shopping Management Corporation                                | —                                   | 116,476           | 116,476                  | —                          | —               | —                  | —                             |
| Metro Main Star Asia Corp.                                           | —                                   | 101,446           | 101,446                  | —                          | —               | —                  | —                             |
| Meridien Business Leader, Inc.                                       | —                                   | 71,533            | 68,338                   | —                          | 3,195           | —                  | 3,195                         |
| Madison Shopping Plaza, Inc.                                         | —                                   | 114,688           | 114,688                  | —                          | —               | —                  | —                             |
| Multi Stores Corporation                                             | —                                   | 63,452            | 63,452                   | —                          | —               | —                  | —                             |
| Mandurriao Star, Inc.                                                | —                                   | 141,487           | 141,487                  | —                          | —               | —                  | —                             |
| Metro Manila Shopping Mecca Corp.                                    | —                                   | 99,033            | 99,033                   | —                          | —               | —                  | —                             |
| Mercantile Stores Group, Inc.                                        | —                                   | 146,032           | 146,032                  | —                          | —               | —                  | —                             |
| Mindanao Shopping Destination Corp.                                  | —                                   | 32,124            | 32,124                   | —                          | —               | —                  | —                             |
| Manila Southern Associates, Inc.                                     | —                                   | 112,078           | 112,078                  | —                          | —               | —                  | —                             |
| SM Mart, Inc.                                                        | —                                   | 278,625           | 278,625                  | —                          | —               | —                  | —                             |
| Supervalu, Inc.                                                      | 1,268                               | 239,266           | 239,655                  | —                          | 879             | —                  | 879                           |
| Super Shopping Market, Inc.                                          | 395                                 | 168,994           | 166,257                  | —                          | 3,132           | —                  | 3,132                         |
| Star Appliance Center, Inc.                                          | 118,846                             | 418,512           | 398,446                  | —                          | 138,912         | —                  | 138,912                       |
| Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.) | 6,862                               | —                 | —                        | —                          | 6,862           | —                  | 6,862                         |
| SM Prime Holdings, Inc.                                              | —                                   | 2,748             | 2,730                    | —                          | 18              | —                  | 18                            |
| SM Investments Corporation                                           | —                                   | 34,726            | —                        | —                          | 34,726          | —                  | 34,726                        |
| <b>Accounts receivable—management and service fees</b>               | <b>₱128,865</b>                     | <b>₱2,654,467</b> | <b>₱2,593,628</b>        | <b>₱—</b>                  | <b>₱189,704</b> | <b>₱—</b>          | <b>₱189,704</b>               |

Schedule C

| <b>Dividends Receivable</b>                                             | <b>Balance at<br/>beginning of<br/>year</b> | <b>Additions</b>   | <b>Amounts<br/>collected</b> | <b>Amounts<br/>written off</b> | <b>Current</b>     | <b>Not<br/>current</b> | <b>Balance at end of<br/>year</b> |
|-------------------------------------------------------------------------|---------------------------------------------|--------------------|------------------------------|--------------------------------|--------------------|------------------------|-----------------------------------|
| Multi-Realty Development Corporation                                    | ₱818,182                                    | ₱457,770           | ₱305,497                     | ₱—                             | ₱970,455           | ₱—                     | ₱970,455                          |
| SM Retail, Inc                                                          | 7,366,648                                   | 7,754,300          | 7,000,004                    | —                              | 8,120,944          | —                      | 8,120,944                         |
| SM Prime Holdings, Inc.                                                 | —                                           | 3,301,309          | 3,301,309                    | —                              | —                  | —                      | —                                 |
| Belleshares Holdings, Inc. (formerly SM<br>Commercial Properties, Inc.) | 722,700                                     | 707,850            | 242,550                      | —                              | 1,188,000          | —                      | 1,188,000                         |
| Sto Roberto Marketing Corporation                                       | 292,000                                     | —                  | 98,000                       | —                              | 194,000            | —                      | 194,000                           |
| Net Group                                                               | —                                           | 900,000            | 900,000                      | —                              | —                  | —                      | —                                 |
| Nagtahan Property Holdings, Inc.                                        | —                                           | 2,493              | 2,493                        | —                              | —                  | —                      | —                                 |
| SM Investments Corporation                                              | —                                           | 1,047              | 1,047                        | —                              | —                  | —                      | —                                 |
| <b><u>Total Dividends Receivable</u></b>                                | <b>₱9,199,530</b>                           | <b>₱13,124,769</b> | <b>₱11,850,900</b>           | <b>₱—</b>                      | <b>₱10,473,399</b> | <b>₱—</b>              | <b>₱10,473,399</b>                |

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS – Other Assets**  
**AS AT DECEMBER 31, 2016**  
**(Amounts in Thousands)**

| <b>Description</b>             | <b>Balance at<br/>beginning of<br/>year</b> | <b>Additions at Cost</b> | <b>Charged to Cost<br/>and Expenses</b> | <b>Other changes<br/>Additions<br/>(Deductions)</b> | <b>Charged to Other<br/>Accounts</b> | <b>Balance at end of<br/>year</b> |
|--------------------------------|---------------------------------------------|--------------------------|-----------------------------------------|-----------------------------------------------------|--------------------------------------|-----------------------------------|
| Goodwill                       | ₱17,306,871                                 | ₱–                       | ₱–                                      | ₱–                                                  | ₱–                                   | ₱17,306,871                       |
| Trademarks and brand names     | 8,528,780                                   | –                        | (123,884)                               | –                                                   | –                                    | 8,404,896                         |
| <b>Total Intangible Assets</b> | <b>₱25,835,651</b>                          | <b>₱–</b>                | <b>(₱123,884)</b>                       | <b>₱–</b>                                           | <b>₱–</b>                            | <b>₱25,711,767</b>                |

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**AS AT DECEMBER 31, 2016**

| Title of Issue | Number of Shares<br>Authorized | Number of Shares<br>Outstanding | Number of Shares<br>Reserved for Options,<br>Warrants,<br>Conversions, and<br>Other Rights | Number of Shares Held by |                                                         |             |
|----------------|--------------------------------|---------------------------------|--------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------|-------------|
|                |                                |                                 |                                                                                            | Affiliates               | Directors,<br>Officers and<br>Principal<br>Stockholders | Others      |
| Common Stock   | 2,790,000,000                  | 1,204,582,867                   | —                                                                                          | 98,538,381               | 572,465,312                                             | 533,579,174 |

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**COMPUTATION OF PUBLIC OWNERSHIP**  
**AS AT DECEMBER 31, 2016**

|                                                      | <b>"% to total I/O shares"</b> | <b>Number of Shares</b> | <b>Total</b>         |
|------------------------------------------------------|--------------------------------|-------------------------|----------------------|
| <b>Number of Shares Issued and Outstanding (I/O)</b> |                                |                         | <b>1,204,582,867</b> |
| <b>Directors:</b>                                    |                                |                         |                      |
| Henry Sy, Sr.<br>Indirect                            | 0.40%                          | 4,773,825               |                      |
| Teresita T. Sy<br>Direct                             | 7.11%                          | 85,628,175              |                      |
| Henry Sy, Jr.<br>Direct                              | 7.28%                          | 87,690,675              |                      |
| Harley T. Sy<br>Direct                               | 7.29%                          | 87,792,438              |                      |
| Jose T. Sio<br>Direct                                | 0.00%                          | 21                      |                      |
| Tomasa H. Lipana<br>Direct                           | 0.00%                          | 150                     |                      |
| Ah Doo Lim<br>Direct                                 | 0.00%                          | 187                     |                      |
| Joseph R. Higdon<br>Direct                           | 0.00%                          | 187                     |                      |
| <b>Subtotal</b>                                      | <b>22.08%</b>                  | <b>265,885,658</b>      |                      |

*(Forward)*

|                                | " % to total I/O shares" | Number of Shares | Total |
|--------------------------------|--------------------------|------------------|-------|
| <b>Officers -</b>              |                          |                  |       |
| Cecilia R. Patricio<br>Direct  | 0.00%                    | 130              |       |
| Corazon P. Guidote<br>Indirect | 0.00%                    | 3,187            |       |
| Wilson H. Go<br>Indirect       | 0.00%                    | 243              |       |
| <b>Subtotal</b>                | <b>0.00%</b>             | <b>3,560</b>     |       |

**Principal Stockholders:**

|                           |               |                    |  |
|---------------------------|---------------|--------------------|--|
| Felicidad T. Sy<br>Direct | 3.18%         | 38,283,090         |  |
| Indirect                  | 0.03%         | 312,169            |  |
| Hans T. Sy<br>Direct      | 8.21%         | 98,940,675         |  |
| Indirect                  | 0.00%         | 15,003             |  |
| Herbert T. Sy<br>Direct   | 8.21%         | 98,940,675         |  |
| Elizabeth T. Sy<br>Direct | 5.82%         | 70,084,482         |  |
| <b>Subtotal</b>           | <b>25.45%</b> | <b>306,576,094</b> |  |

**Affiliates:**

|                                                  |       |         |  |
|--------------------------------------------------|-------|---------|--|
| Multi-Realty Development Corporation<br>Indirect | 0.00% | 1,648   |  |
| SM Prime Holdings, Inc.<br>Indirect              | 0.01% | 146,104 |  |

*(Forward)*

|                                                                                            | <b>" % to total I/O shares"</b> | <b>Number of Shares</b> | <b>Total</b>       |
|--------------------------------------------------------------------------------------------|---------------------------------|-------------------------|--------------------|
| Belle Corporation                                                                          |                                 |                         |                    |
| Direct                                                                                     | 0.00%                           | 48,877                  |                    |
| Syntrix Holdings, Inc.                                                                     |                                 |                         |                    |
| Direct                                                                                     | 3.89%                           | 46,875,000              |                    |
| Sysmart Corporation                                                                        |                                 |                         |                    |
| Direct                                                                                     | 2.40%                           | 28,925,745              |                    |
| Indirect                                                                                   | 0.00%                           | 41,007                  |                    |
| Tansmart Corporation                                                                       |                                 |                         |                    |
| Direct                                                                                     | 1.87%                           | 22,500,000              |                    |
| <b>Subtotal</b>                                                                            | <b>8.17%</b>                    | <b>98,538,381</b>       |                    |
| <b>Total Shares held by Directors, Officers,<br/>Principal Stockholders and Affiliates</b> | <b>55.70%</b>                   |                         | <b>671,003,693</b> |
| <b>Total Number of Shares Owned by the Public</b>                                          | <b>44.30%</b>                   |                         | <b>533,579,174</b> |

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015**

|      |                              | <u><b>2016</b></u>                                                                                                                                                                                                                                                                                                                                                                                                           | <u><b>2015</b></u> |
|------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| i.   | Current ratio                | $\frac{\text{Current assets}}{\text{Current liabilities}}$                                                                                                                                                                                                                                                                                                                                                                   | 1.62 : 1           |
| ii.  | Debt-to-equity ratio         | $\frac{\text{Total interest-bearing debt}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt}}$                                                                                                                                                                                                                                                                           | 52 : 48            |
|      | Net debt-to-equity ratio     | $\frac{\text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}$ | 36 : 64            |
| iii. | Asset to equity ratio        | $\frac{\text{Total assets}}{\text{Total equity}}$                                                                                                                                                                                                                                                                                                                                                                            | 2.08               |
| iv.  | Interest rate coverage ratio | $\frac{\text{Income from operations} + \text{Depreciation and amortization}}{\text{Interest expense}}$                                                                                                                                                                                                                                                                                                                       | 7.01               |
| v.   | Return on assets             | $\frac{\text{Net income}}{\text{Average assets}}$                                                                                                                                                                                                                                                                                                                                                                            | 5.8%               |
|      | Return on equity             | $\frac{\text{Net income attributable to equity holders of the parent}}{\text{Average equity attributable to equity holders of the parent}}$                                                                                                                                                                                                                                                                                  | 10.8%              |

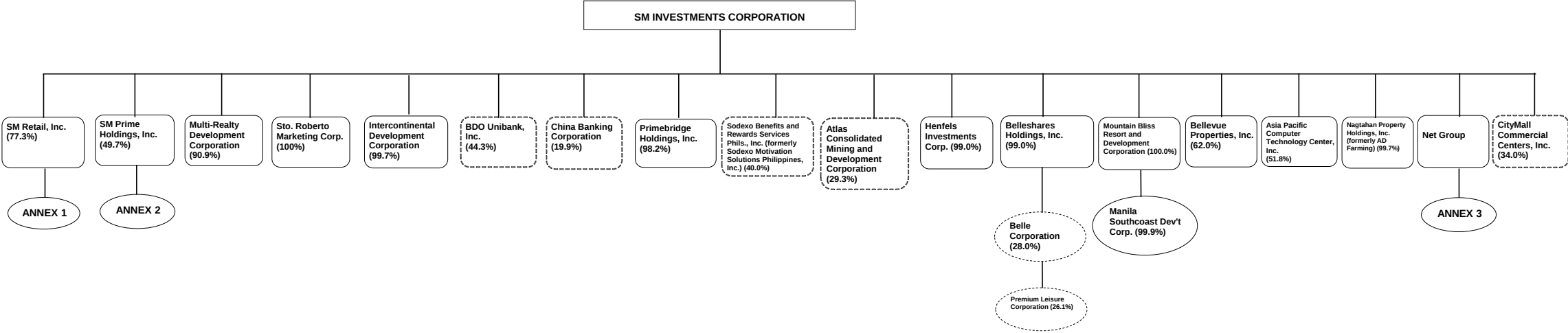
**Reconciliation of Retained Earnings  
Available for Dividend Declaration  
As at December 31, 2016  
(Amounts in Thousands)**

**SM Investments Corporation**

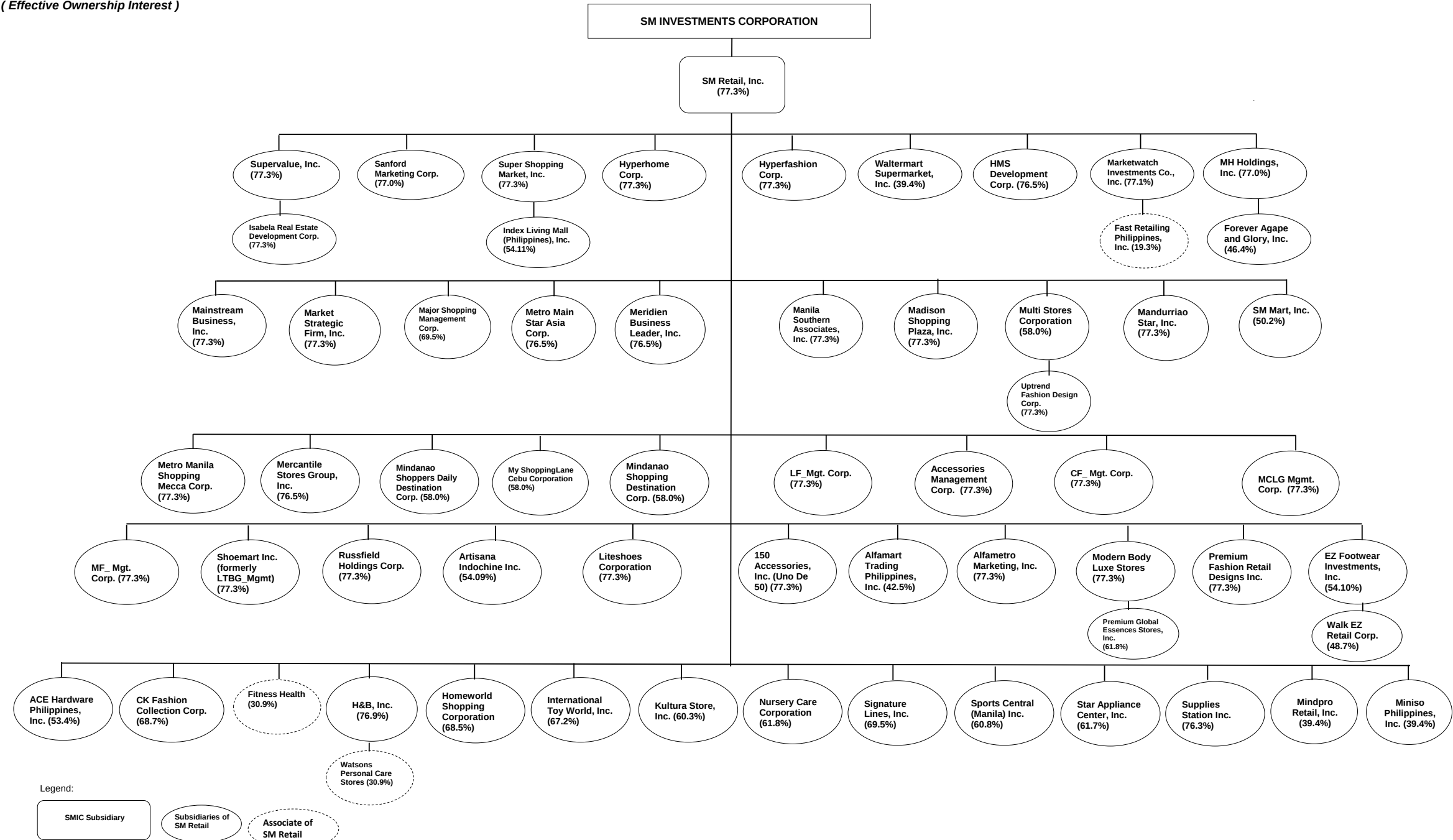
10th Floor, One E-Com Center, Harbor Drive,  
Mall of Asia Complex, CBP-1A, Pasay City 1300

|                                                                                                        |            |                                 |
|--------------------------------------------------------------------------------------------------------|------------|---------------------------------|
| <b>Unappropriated Retained Earnings, December 31, 2015</b>                                             |            | <b>15,911,172</b>               |
| Adjustments to the beginning unappropriated RE:                                                        |            |                                 |
| Rental income from straight-line amortization in excess of rental payments                             | (378,287)  |                                 |
| Actuarial loss as at January 1, 2013 recorded as expense in 2013                                       | 48,548     | (329,739)                       |
|                                                                                                        |            | <hr/>                           |
| <b>Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning</b> |            | <b>15,581,433</b>               |
| Net income during the period closed to Retained Earnings                                               | 12,085,094 |                                 |
| Add: Rental payments in excess of rental income from straight-line amortization                        | 9,975      |                                 |
|                                                                                                        |            | <hr/>                           |
| <b>Net income actually earned during the period</b>                                                    |            | <b>12,095,069</b>               |
| Less: Cash dividends declared during the period                                                        |            | (8,536,479)                     |
| Stock dividends declared during the period                                                             |            | (4,015,275)                     |
| Appropriations of Retained Earnings during the period                                                  |            | -                               |
| Reversals of appropriations                                                                            |            | -                               |
|                                                                                                        |            | <hr/>                           |
| <b>Unappropriated Retained Earnings, as adjusted to available for dividend distribution, ending</b>    |            | <b><u><u>15,124,748</u></u></b> |

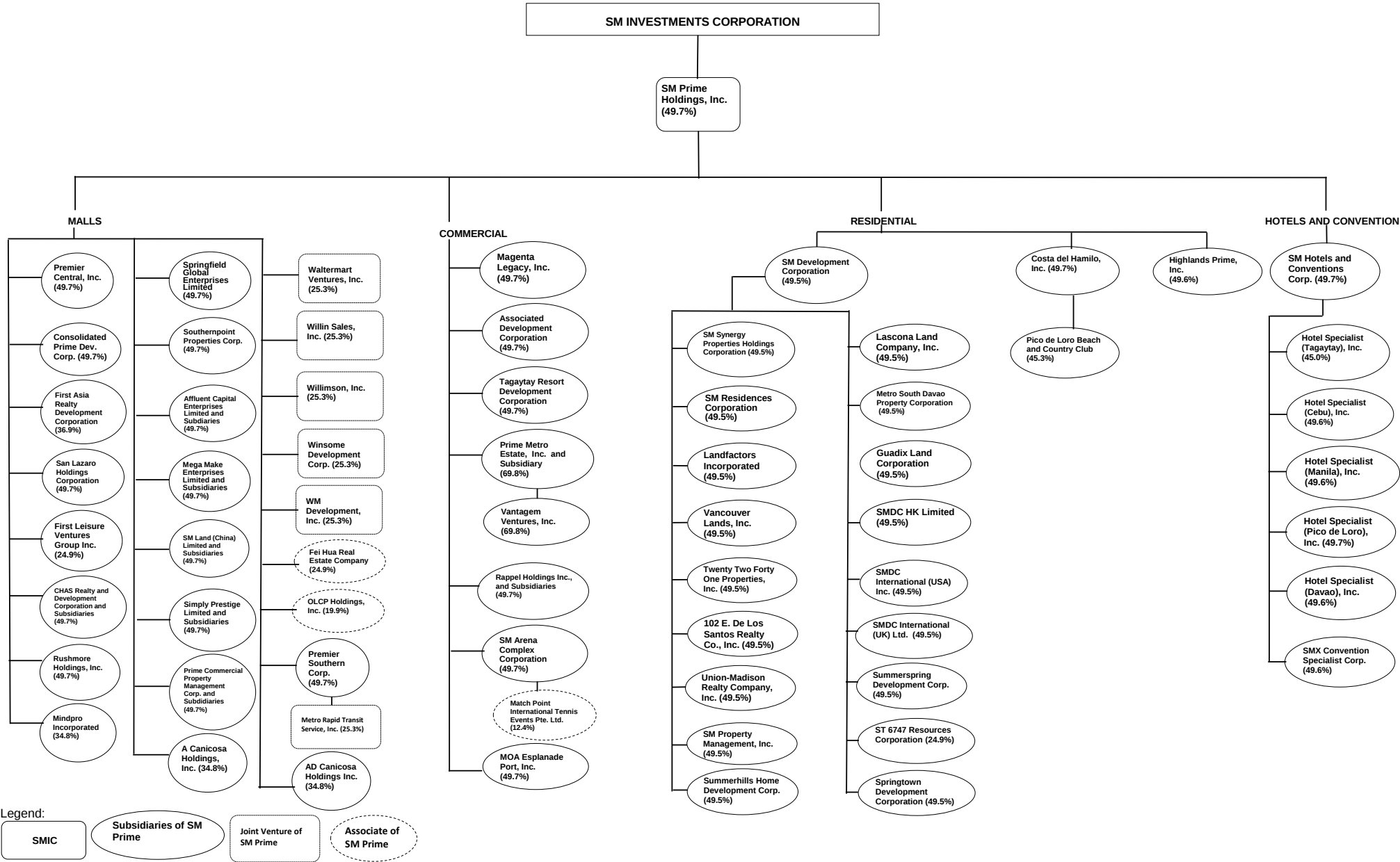
SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
CONGLOMERATE MAP  
AS AT DECEMBER 31, 2016  
( Effective Ownership Interest )



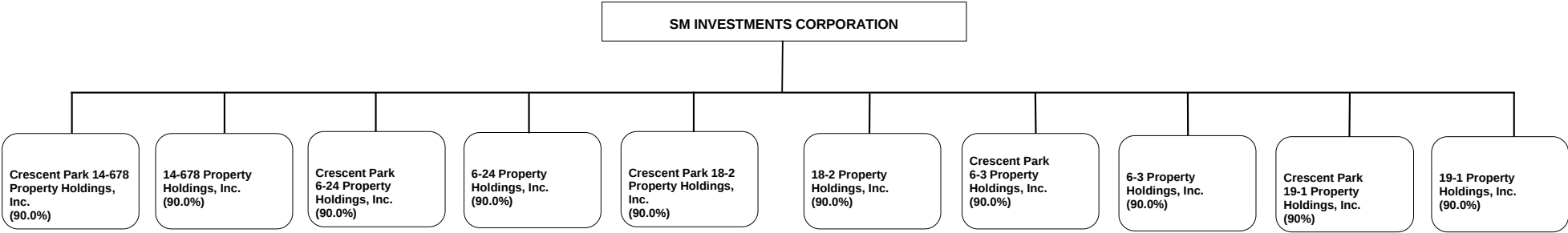
SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
CONGLOMERATE MAP  
AS AT DECEMBER 31, 2016  
( Effective Ownership Interest )



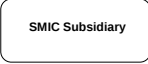
SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
CONGLOMERATE MAP  
AS AT DECEMBER 31, 2016  
( Effective Ownership Interest )



SM INVESTMENTS CORPORATION AND SUBSIDIARIES  
CONGLOMERATE MAP  
AS AT DECEMBER 31, 2016  
( Effective Ownership Interest )



Legend:



Note: The entities above comprise the "Net Group".

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**List of Philippine Financial Reporting Standards (PFRSs) and**  
**Interpretations Effective as at December 31, 2016**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2016                                                  |                                                                                                                | <b>Adopted</b>    | <b>Not Adopted</b> | <b>Not Applicable</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-------------------|--------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |                                                                                                                | ✓                 |                    |                       |
| <b>PFRSs Practice Statement Management Commentary</b>                                                                                                     |                                                                                                                |                   |                    | ✓                     |
| <b>Philippine Financial Reporting Standards</b>                                                                                                           |                                                                                                                |                   |                    |                       |
| <b>PFRS 1 (Revised)</b>                                                                                                                                   | First-time Adoption of Philippine Financial Reporting Standards                                                |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Additional Exemptions for First-time Adopters                                            |                   |                    | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Government Loans                                                                         |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Borrowing Costs                                                                          |                   |                    | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 1: Meaning of Effective PFRSs                                                                |                   |                    | ✓                     |
| <b>PFRS 2</b>                                                                                                                                             | Share-based Payment                                                                                            |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Vesting Conditions and Cancellations                                                     |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |                   |                    | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 2: Definition of Vesting Condition                                                           |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions* | Not Early Adopted |                    |                       |
| <b>PFRS 3 (Revised)</b>                                                                                                                                   | Business Combinations                                                                                          | ✓                 |                    |                       |
|                                                                                                                                                           | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination                         | ✓                 |                    |                       |
|                                                                                                                                                           | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements                                                   | ✓                 |                    |                       |
| <b>PFRS 4</b>                                                                                                                                             | Insurance Contracts                                                                                            |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                 |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 4: Applying PFRS 9 with PFRS 4*                                                             | Not Early Adopted |                    |                       |
| <b>PFRS 5</b>                                                                                                                                             | Non-current Assets Held for Sale and Discontinued Operations                                                   |                   |                    | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 5: Changes in Methods of Disposals                                                          |                   |                    | ✓                     |
| <b>PFRS 6</b>                                                                                                                                             | Exploration for and Evaluation of Mineral Resources                                                            |                   |                    | ✓                     |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2016 |                                                                                                                                                   | Adopted           | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|----------------|
| <b>PFRS 7</b>                                                                                     | Financial Instruments: Disclosures                                                                                                                | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                             | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                             | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                                                                           | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                                                                 | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities                                                         | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                                                               | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures – Servicing Contracts                                                                                           |                   |             | ✓              |
|                                                                                                   | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements                                         |                   |             | ✓              |
| <b>PFRS 8</b>                                                                                     | Operating Segments                                                                                                                                | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓                 |             |                |
| <b>PFRS 9</b>                                                                                     | Financial Instruments*                                                                                                                            | Not Early Adopted |             |                |
| <b>PFRS 10</b>                                                                                    | Consolidated Financial Statements                                                                                                                 | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                                                    |                   |             | ✓              |
|                                                                                                   | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture                           | Not Early Adopted |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception                                                                   |                   |             | ✓              |
| <b>PFRS 11</b>                                                                                    | Joint Arrangements                                                                                                                                | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations                                                               | ✓                 |             |                |
| <b>PFRS 12</b>                                                                                    | Disclosure of Interests in Other Entities                                                                                                         | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                                                    |                   |             | ✓              |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception                                                                   |                   |             | ✓              |
|                                                                                                   | Amendments to PFRS 12: Clarification of the Scope of the Standard*                                                                                | Not Early Adopted |             |                |
| <b>PFRS 13</b>                                                                                    | Fair Value Measurement                                                                                                                            | ✓                 |             |                |
|                                                                                                   | Amendment to PFRS 13: Short-term Receivables and Payables                                                                                         | ✓                 |             |                |
|                                                                                                   | Amendment to PFRS 13: Portfolio Exception                                                                                                         | ✓                 |             |                |
| <b>PFRS 14</b>                                                                                    | Regulatory Deferral Accounts                                                                                                                      |                   |             | ✓              |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as at December 31, 2016</b> |                                                                                                                         | <b>Adopted</b>    | <b>Not Adopted</b> | <b>Not Applicable</b> |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|-----------------------|
| <b>PFRS 15</b>                                                                                                  | Revenue from Contracts with Customers*                                                                                  | Not Early Adopted |                    |                       |
| <b>PFRS 16</b>                                                                                                  | Leases*                                                                                                                 | Not Early Adopted |                    |                       |
| <b>Philippine Accounting Standards</b>                                                                          |                                                                                                                         |                   |                    |                       |
| <b>PAS 1 (Revised)</b>                                                                                          | Presentation of Financial Statements                                                                                    | ✓                 |                    |                       |
|                                                                                                                 | Amendment to PAS 1: Capital Disclosures                                                                                 | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation                   | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                                                | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 1: Clarification of the Requirements for Comparative Information                                      | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 1: Presentation of Financial Statements - Disclosure Initiative                                       | ✓                 |                    |                       |
| <b>PAS 2</b>                                                                                                    | Inventories                                                                                                             | ✓                 |                    |                       |
| <b>PAS 7</b>                                                                                                    | Statement of Cash Flows                                                                                                 | ✓                 |                    |                       |
|                                                                                                                 | Statement of Cash Flows - Disclosure Initiative*                                                                        | Not Early Adopted |                    |                       |
| <b>PAS 8</b>                                                                                                    | Accounting Policies, Changes in Accounting Estimates and Errors                                                         | ✓                 |                    |                       |
| <b>PAS 10</b>                                                                                                   | Events after the Reporting Period                                                                                       | ✓                 |                    |                       |
| <b>PAS 11</b>                                                                                                   | Construction Contracts                                                                                                  | ✓                 |                    |                       |
| <b>PAS 12</b>                                                                                                   | Income Taxes                                                                                                            | ✓                 |                    |                       |
|                                                                                                                 | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                                       |                   |                    | ✓                     |
|                                                                                                                 | Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses*                                        | Not Early Adopted |                    |                       |
| <b>PAS 16</b>                                                                                                   | Property, Plant and Equipment                                                                                           | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 16: Classification of servicing equipment                                                             | ✓                 |                    |                       |
|                                                                                                                 | Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortization |                   |                    | ✓                     |
|                                                                                                                 | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization                   |                   |                    | ✓                     |
|                                                                                                                 | Amendments to PAS 16 and PAS 41: Bearer Plants                                                                          |                   |                    | ✓                     |
| <b>PAS 17</b>                                                                                                   | Leases                                                                                                                  | ✓                 |                    |                       |
| <b>PAS 18</b>                                                                                                   | Revenue                                                                                                                 | ✓                 |                    |                       |
| <b>PAS 19</b>                                                                                                   | Employee Benefits                                                                                                       | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                                           |                   |                    | ✓                     |
| <b>PAS 19 (Amended)</b>                                                                                         | Employee Benefits                                                                                                       | ✓                 |                    |                       |
|                                                                                                                 | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution                                                      |                   |                    | ✓                     |
|                                                                                                                 | Amendments to PAS 19: Regional Market Issue Regarding Discount Rate                                                     |                   |                    | ✓                     |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2016 |                                                                                                                         | Adopted           | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|----------------|
| <b>PAS 20</b>                                                                                     | Accounting for Government Grants and Disclosure of Government Assistance                                                |                   |             | ✓              |
| <b>PAS 21</b>                                                                                     | The Effects of Changes in Foreign Exchange Rates                                                                        | ✓                 |             |                |
|                                                                                                   | Amendment: Net Investment in a Foreign Operation                                                                        | ✓                 |             |                |
| <b>PAS 23 (Revised)</b>                                                                           | Borrowing Costs                                                                                                         | ✓                 |             |                |
| <b>PAS 24 (Revised)</b>                                                                           | Related Party Disclosures                                                                                               | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 24: Key Management Personnel                                                                          | ✓                 |             |                |
| <b>PAS 26</b>                                                                                     | Accounting and Reporting by Retirement Benefit Plans                                                                    |                   |             | ✓              |
| <b>PAS 27</b>                                                                                     | Consolidated and Separate Financial Statements                                                                          | ✓                 |             |                |
| <b>PAS 27 (Amended)</b>                                                                           | Separate Financial Statements                                                                                           | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                          |                   |             | ✓              |
|                                                                                                   | Amendments to PAS 27: Equity Method in Separate Financial Statements                                                    | ✓                 |             |                |
| <b>PAS 28</b>                                                                                     | Investments in Associates                                                                                               | ✓                 |             |                |
| <b>PAS 28 (Amended)</b>                                                                           | Investments in Associates and Joint Ventures                                                                            | ✓                 |             |                |
|                                                                                                   | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Not Early Adopted |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception                                         |                   |             | ✓              |
|                                                                                                   | Amendments to PAS 28: Measuring Associate or Joint Venture at Fair Value*                                               | Not Early Adopted |             |                |
| <b>PAS 29</b>                                                                                     | Financial Reporting in Hyperinflationary Economies                                                                      |                   |             | ✓              |
| <b>PAS 31</b>                                                                                     | Interests in Joint Ventures                                                                                             | ✓                 |             |                |
| <b>PAS 32</b>                                                                                     | Financial Instruments: Presentation                                                                                     | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation                   | ✓                 |             |                |
|                                                                                                   | Amendment to PAS 32: Classification of Rights Issues                                                                    | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                                             | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments                                       | ✓                 |             |                |
| <b>PAS 33</b>                                                                                     | Earnings per Share                                                                                                      | ✓                 |             |                |
| <b>PAS 34</b>                                                                                     | Interim Financial Reporting                                                                                             | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities              | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'                             | ✓                 |             |                |
| <b>PAS 36</b>                                                                                     | Impairment of Assets                                                                                                    | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                                           | ✓                 |             |                |
| <b>PAS 37</b>                                                                                     | Provisions, Contingent Liabilities and Contingent Assets                                                                | ✓                 |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2016 |                                                                                                                                                              | Adopted           | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|----------------|
| <b>PAS 38</b>                                                                                     | Intangible Assets                                                                                                                                            | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization                                                  |                   |             | ✓              |
|                                                                                                   | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization                                                        |                   |             | ✓              |
| <b>PAS 39</b>                                                                                     | Financial Instruments: Recognition and Measurement                                                                                                           | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities                                                       | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                                                                         | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39: The Fair Value Option                                                                                                                  | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                                                               | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                                        | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition                                                        | ✓                 |             |                |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives                                                                             | ✓                 |             |                |
|                                                                                                   | Amendment to PAS 39: Eligible Hedged Items                                                                                                                   | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                                                                           | ✓                 |             |                |
| <b>PAS 40</b>                                                                                     | Investment Property                                                                                                                                          | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property | ✓                 |             |                |
|                                                                                                   | Amendments to PAS 40: Transfers of Investment Property*                                                                                                      | Not Early Adopted |             |                |
| <b>PAS 41</b>                                                                                     | Agriculture                                                                                                                                                  |                   |             | ✓              |
|                                                                                                   | Amendments to PAS 16 and PAS 41: Bearer Plants                                                                                                               |                   |             | ✓              |
| <b>Philippine Interpretations</b>                                                                 |                                                                                                                                                              |                   |             |                |
| <b>IFRIC 1</b>                                                                                    | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                                                                     |                   |             | ✓              |
| <b>IFRIC 2</b>                                                                                    | Members' Share in Co-operative Entities and Similar Instruments                                                                                              |                   |             | ✓              |
| <b>IFRIC 4</b>                                                                                    | Determining Whether an Arrangement Contains a Lease                                                                                                          | ✓                 |             |                |
| <b>IFRIC 5</b>                                                                                    | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds                                                         |                   |             | ✓              |
| <b>IFRIC 6</b>                                                                                    | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment                                                      |                   |             | ✓              |
| <b>IFRIC 7</b>                                                                                    | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies                                                            |                   |             | ✓              |
| <b>IFRIC 8</b>                                                                                    | Scope of PFRS 2                                                                                                                                              |                   |             | ✓              |
| <b>IFRIC 9</b>                                                                                    | Reassessment of Embedded Derivatives                                                                                                                         | ✓                 |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2016 |                                                                                                  | Adopted           | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------|-------------|----------------|
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                 | ✓                 |             |                |
| <b>IFRIC 10</b>                                                                                   | Interim Financial Reporting and Impairment                                                       | ✓                 |             |                |
| <b>IFRIC 11</b>                                                                                   | PFRS 2- Group and Treasury Share Transactions                                                    |                   |             | ✓              |
| <b>IFRIC 12</b>                                                                                   | Service Concession Arrangements                                                                  |                   |             | ✓              |
| <b>IFRIC 13</b>                                                                                   | Customer Loyalty Programmes                                                                      | ✓                 |             |                |
| <b>IFRIC 14</b>                                                                                   | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction         | ✓                 |             |                |
|                                                                                                   | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | ✓                 |             |                |
| <b>IFRIC 15</b>                                                                                   | Agreements for the Construction of Real Estate*                                                  | Not Early Adopted |             |                |
| <b>IFRIC 16</b>                                                                                   | Hedges of a Net Investment in a Foreign Operation                                                |                   |             | ✓              |
| <b>IFRIC 17</b>                                                                                   | Distributions of Non-cash Assets to Owners                                                       |                   |             | ✓              |
| <b>IFRIC 18</b>                                                                                   | Transfers of Assets from Customers                                                               |                   |             | ✓              |
| <b>IFRIC 19</b>                                                                                   | Extinguishing Financial Liabilities with Equity Instruments                                      |                   |             | ✓              |
| <b>IFRIC 20</b>                                                                                   | Stripping Costs in the Production Phase of a Surface Mine                                        |                   |             | ✓              |
| <b>IFRIC 21</b>                                                                                   | Levies                                                                                           | ✓                 |             |                |
| <b>IFRIC 22</b>                                                                                   | Foreign Currency Transactions and Advance Consideration*                                         | Not Early Adopted |             |                |
| <b>SIC-7</b>                                                                                      | Introduction of the Euro                                                                         |                   |             | ✓              |
| <b>SIC-10</b>                                                                                     | Government Assistance - No Specific Relation to Operating Activities                             |                   |             | ✓              |
| <b>SIC-12</b>                                                                                     | Consolidation - Special Purpose Entities                                                         |                   |             | ✓              |
|                                                                                                   | Amendment to SIC - 12: Scope of SIC 12                                                           |                   |             | ✓              |
| <b>SIC-13</b>                                                                                     | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                            |                   |             | ✓              |
| <b>SIC-15</b>                                                                                     | Operating Leases – Incentives                                                                    | ✓                 |             |                |
| <b>SIC-25</b>                                                                                     | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                        |                   |             | ✓              |
| <b>SIC-27</b>                                                                                     | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                     | ✓                 |             |                |
| <b>SIC-29</b>                                                                                     | Service Concession Arrangements: Disclosures                                                     |                   |             | ✓              |
| <b>SIC-31</b>                                                                                     | Revenue - Barter Transactions Involving Advertising Services                                     |                   |             | ✓              |
| <b>SIC-32</b>                                                                                     | Intangible Assets - Web Site Costs                                                               |                   |             | ✓              |

\* Standards and interpretations which will become effective subsequent to December 31, 2016.

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2016.