



INVESTMENTS
CORPORATION

SM INVESTMENTS CORPORATION

(A corporation duly organized and existing under Philippine laws)

OFFER SUPPLEMENT

dated 2 February 2022

Offer of ₱10,000,000,000 Fixed Rate Bonds
With an Over-subscription Option of up to ₱5,000,000,000
Second Tranche Offer under its ₱30,000,000,000 Debt Securities Shelf Registration
consisting of

3.5915% p.a. Series I Bonds due 2025

4.7713% p.a. Series J Bonds due 2027

at an Offer Price of 100% of Face Value

to be listed and traded through
the Philippine Dealing & Exchange Corp.

A REGISTRATION STATEMENT COVERING THE ₱30,000,000,000 DEBT SECURITIES WAS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") AND WAS APPROVED BY THE SEC UNDER SEC MSDR ORDER NO. 12, SERIES OF 2020, ISSUED ON 21 SEPTEMBER 2020. THE FIRST TRANCHE HAD AN AGGREGATE PRINCIPAL AMOUNT OF ₱10,000,000,000 AND WAS ISSUED ON 2 OCTOBER 2020 UNDER THE PROSPECTUS DATED 17 SEPTEMBER 2020. THIS OFFER SUPPLEMENT SHOULD BE READ IN CONJUNCTION WITH THE FINAL PROSPECTUS WHICH IS ACCESSIBLE AT <https://www.sminvestments.com/wp-content/uploads/2020/11/A.-SMIC-Prospectus-as-of-17-September-2020-with-Annexes-rev.pdf>.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS OFFER SUPPLEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION. THE COMPANY TAKES FULL RESPONSIBILITY FOR THE ACCURACY, COMPLETENESS AND TIMELINESS OF THE INFORMATION CONTAINED HEREIN.

Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters¹



¹ BDO Capital & Investment Corporation and China Bank Capital Corporation are wholly owned subsidiaries of BDO Unibank, Inc. and China Banking Corporation, respectively, which are associates of SM Investments Corporation. Should the over-subscription option be exercised, part of the proceeds will be used to repay SM Investments Corporation's borrowings with BDO Unibank, Inc.

Joint Bookrunners and Joint Lead Underwriters



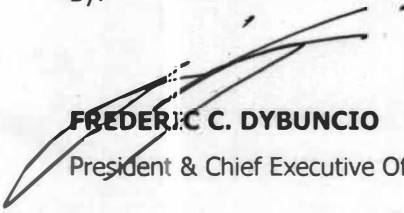
TRUSTEE

Philippine National Bank Trust Banking Group

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.

SM Investments Corporation

By:




FREDERIC C. DYBUNCIO

President & Chief Executive Officer

SUBSCRIBED AND SWORN to before me this 2nd day of February 2022, affiant exhibiting to me his TIN ID

Doc. No. 131
Book No. 27
Page No. xx
Series of 2022.



CHESTER T. BORDEOS

Notary Public for and in the City of Manila
Until 30 June 2022 under SC Resolution
En Banc dated 09/28/21 (B.M. No. 3795)
Attorney's Roll No. 41934; TIN 904-465-536
PTR No. 0152879; 01/05/22; Manila
IBP Life Roll No. 07903; 01/08/09; Albay
MCLE Compliance No. VI-0015889 ; 12-13-18

TABLE OF CONTENTS

SUMMARY FINANCIAL INFORMATION	2
SUMMARY OF THE OFFER	6
DESCRIPTION OF THE BONDS	9
USE OF PROCEEDS.....	26
PLAN OF DISTRIBUTION	29
CAPITALIZATION AND INDEBTEDNESS	33
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS.....	34
TAXATION.....	52
PARTIES TO THE OFFER.....	56

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated. The selected audited financial information presented below as at 31 December 2018, 2019, and 2020 and for the years ended 31 December 2018, 2019 and 2020, and the selected unaudited interim financial information as at 30 September 2021 and for the first nine months ended 30 September 2021 and 2020 have been derived from the Issuer's audited consolidated financial statements and reviewed interim condensed consolidated financial statements. Unless otherwise stated, the consolidated balance sheet data as at 31 December 2019 are derived from the comparatives of audited consolidated financial statements as of 31 December 2020. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Offer Supplement.

SM Investments Corporation and its subsidiaries (the "Group") availed of the deferral of the application of the reporting reliefs issued and approved by SEC under Memorandum (MC) No. 34-2020 in response to the COVID-19 pandemic in "Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A No. 2018-12-D, PFRS 15 Implementation Issues Affecting the Real Estate Industry" and application of "IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost)". Please refer to Note 3 to the unaudited interim condensed consolidated financial statements, included elsewhere in this Offer Supplement, for the details of the impact of adoption of these financial reporting reliefs.

The Group adopted PFRS 16, Leases, using modified retrospective approach with the initial date of application of 1 January 2019. Amounts presented in the consolidated balance sheets, consolidated statements of income and consolidated statements of comprehensive income as at and for the year ended 31 December 2018 are based on PAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Please refer to Note 3 of the Group's 2019 audited consolidated financial statements, which are included elsewhere in the Offer Supplement, for the effect of the adoption of PFRS 16.

CONSOLIDATED BALANCE SHEETS

	As at 31 December			As at 30 September
	2018 Audited	2019 Audited	2020 Audited	2021 Unaudited
<i>(in ₱ thousands)</i>				
ASSETS				
Current Assets				
Cash and cash equivalents	79,313,215	76,213,774	78,159,197	61,205,535
Time deposits	25,842,829	30,488	31,012	429,201
Financial assets at fair value through other comprehensive income (FVOCI)	639,316	659,077	568,146	547,584
Receivables and contract assets	33,755,192	53,617,200	60,526,230	69,569,275
Inventories	69,433,801	77,120,016	72,056,045	81,630,098
Other current assets	32,741,109	40,716,425	43,170,378	46,314,566
Total Current Assets	241,725,462	248,356,980	254,511,008	259,696,259
Noncurrent Assets				
Financial assets at FVOCI - net of current portion	26,702,764	24,229,560	27,278,240	27,173,806
Investments in associate companies and joint ventures	259,795,077	280,971,638	296,265,722	303,094,343
Time deposits - net of current portion	2,392,622	2,412,972	1,356,442	3,381,905
Property and equipment	23,201,667	24,720,873	26,087,448	38,679,527
Investment properties	363,192,721	413,021,997	435,466,724	458,346,762
Right-of-use assets	-	37,664,176	41,979,029	43,581,771
Intangibles	25,470,696	25,289,609	24,588,503	31,739,306

	As at 31 December			As at 30 September
<i>(in ₺ thousands)</i>	2018 Audited	2019 Audited	2020 Audited	2021 Unaudited
Deferred tax assets	2,726,155	3,121,117	4,671,969	4,929,370
Other noncurrent assets	115,435,107	84,375,645	112,318,650	117,496,193
Total Noncurrent Assets	818,916,809	895,807,587	970,012,727	1,028,422,983
Total Assets	1,060,642,271	1,144,164,567	1,224,523,735	1,288,119,242
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities				
Bank loans	18,885,465	18,710,465	24,126,000	20,658,043
Accounts payable and other current liabilities	124,777,719	141,451,764	149,231,108	130,859,593
Income tax payable	3,641,379	3,273,872	2,649,041	1,527,302
Current portion of long-term debt	61,480,887	29,077,719	60,121,438	43,851,365
Dividends payable	3,906,476	4,204,962	3,829,207	1,932,226
Total Current Liabilities	212,691,926	196,718,782	239,956,794	198,828,529
Noncurrent Liabilities				
Long-term debt - net of current portion	305,555,356	327,358,208	330,731,798	396,117,544
Lease liabilities - net of current portion	-	27,600,392	28,868,164	30,452,577
Deferred tax liabilities	8,810,862	9,604,043	12,614,979	14,750,768
Tenants' deposits and others	41,294,115	46,731,664	47,624,102	48,920,542
Total Noncurrent Liabilities	355,660,333	411,294,307	419,839,043	490,241,431
Total Liabilities	568,352,259	608,013,089	659,795,837	689,069,960
Equity Attributable to Owners of the Parent				
Capital stock	12,045,829	12,045,829	12,045,829	12,045,829
Additional paid-in capital	75,815,520	75,815,923	75,823,506	75,814,850
Equity adjustments from common control transactions	(5,424,455)	(5,424,455)	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)	(25,386)	(25,386)
Cumulative translation adjustment	2,014,573	1,308,228	895,922	2,086,070
Net fair value changes on cash flow hedges	62,444	(1,406,026)	(2,741,387)	(1,992,961)
Net unrealized gain on financial assets	11,748,980	14,399,640	16,506,435	14,757,221
Re-measurement loss on defined benefit asset/obligation	(2,063,358)	(8,633,269)	(6,066,075)	(6,001,691)
Retained earnings:				
Appropriated	37,000,000	37,000,000	37,000,000	37,000,000
Unappropriated	222,213,054	257,546,591	275,818,556	297,939,725
Total Equity Attributable to Owners of the Parent	353,387,201	382,627,075	403,832,945	426,199,202
Non-controlling Interests	138,902,811	153,524,403	160,894,953	172,850,080
Total Equity	492,290,012	536,151,478	564,727,898	599,049,282
Total Liabilities and Equity	1,060,642,271	1,144,164,567	1,224,523,735	1,288,119,242

CONSOLIDATED STATEMENTS OF INCOME

(in ₱ thousands)	For the years ended 31 December			For the nine months ended 30 September	
	2018 Audited	2019 Audited	2020 Audited	2020 Unaudited	2021 Unaudited
Revenue					
Sales:					
Merchandise	323,740,170	354,088,848	289,726,442	201,060,095	203,386,131
Real estate	35,967,663	44,499,529	47,023,795	33,907,864	31,493,977
Shipping, logistics and other services	-	-	-	-	3,123,182
Rent	47,555,061	51,573,157	26,904,979	20,911,442	20,141,190
Equity in net earnings of associate companies and joint ventures	19,164,345	26,038,426	17,036,367	10,333,338	20,188,215
Cinema ticket sales, amusement and others	7,286,654	7,739,761	1,095,445	995,039	190,568
Management and service fees	6,379,831	7,348,479	3,936,537	2,939,934	3,036,549
Dividend income	421,914	480,513	430,696	284,464	360,561
Others	9,272,529	10,200,616	8,031,444	6,012,288	7,444,619
	449,788,167	501,969,329	394,185,705	276,444,464	289,364,992
Costs and Expenses					
Cost of sales:					
Merchandise	238,902,107	262,434,661	220,245,198	152,618,815	152,801,871
Real estate	17,852,270	20,806,612	20,583,982	15,333,363	13,240,192
Cost of services	-	-	-	-	4,107,913
Selling, general and administrative expenses	106,419,699	113,257,931	95,482,554	68,988,011	67,155,964
	363,174,076	396,499,204	336,311,734	236,940,189	237,305,940
Other Income (Charges)					
Interest expense	(16,574,388)	(19,511,745)	(18,023,610)	(12,791,281)	(12,846,985)
Interest income	3,754,141	3,881,156	2,436,015	2,074,926	1,534,194
Impairment loss on investment	-	(3,987,000)	(1,000,000)	-	-
Foreign exchange gain (loss) - net and others	336,492	761,962	129,286	(22,344)	1,288,061
	(12,483,755)	(18,855,627)	(16,458,309)	(10,738,699)	(10,024,730)
Income Before Income Tax	74,130,336	86,614,498	41,415,662	28,765,576	42,034,322
Provision for income tax					
Current	15,115,326	16,218,229	6,407,055	3,723,013	4,402,485
Deferred	460,442	951,955	683,565	1,660,215	576,510
	15,575,768	17,170,184	7,090,620	5,383,228	4,978,995
Net Income	58,554,568	69,444,314	34,325,042	23,382,348	37,055,327
Attributable to:					
Owners of the Parent	37,078,325	44,568,244	23,389,950	15,218,549	27,240,018
Non-controlling interests	21,476,243	24,876,070	10,935,092	8,163,799	9,815,309
	58,554,568	69,444,314	34,325,042	23,382,348	37,055,327
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent	₱30.78	₱37.00	₱19.42	₱12.63	₱22.61

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended 31 December			For the nine months ended 30 September	
	2018 Audited	2019 Audited	2020 Audited	2020 Unaudited	2021 Unaudited
<i>(in ₺ thousands)</i>					
NET INCOME	58,554,568	69,444,314	34,325,042	23,382,348	37,055,327
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will be reclassified to profit or loss in subsequent periods					
Share in unrealized gain (loss) on financial assets of associates	(3,502,992)	4,505,589	2,280,460	1,376,844	(1,949,655)
Cumulative translation adjustment	326,536	(1,011,736)	(322,636)	(288,620)	1,823,254
Net fair value changes on cash flow hedges	2,589	(1,712,763)	(1,556,934)	(1,021,476)	908,898
	(3,173,867)	1,781,090	400,890	66,748	782,497
Items not to be reclassified to profit or loss in subsequent periods					
Re-measurement gain (loss) on defined benefit obligation	(2,080,805)	(8,209,190)	4,108,271	-	(20,293)
Net unrealized gain (loss) on financial assets	(520,230)	(176,975)	(302,553)	(3,213,166)	230,157
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(84,499)	553,736	(776,519)	(259,352)	(161,077)
	(2,685,534)	(7,832,429)	3,029,199	(3,472,518)	48,787
TOTAL COMPREHENSIVE INCOME	52,695,167	63,392,975	37,755,131	19,976,578	37,886,611
Attributable to:					
Owners of the Parent	31,112,015	40,223,919	26,317,136	12,349,217	27,493,762
Non-controlling interests	21,583,152	23,169,056	11,437,995	7,627,361	10,392,849
	52,695,167	63,392,975	37,755,131	19,976,578	37,886,611

SUMMARY OF THE OFFER

This document constitutes the Offer Supplement relating to the offer described herein (the "Offer"). Terms used herein shall be deemed to be defined as set forth in the Prospectus dated 17 September 2020 (the "Prospectus"). This Offer Supplement contains the final terms of this Offer and must be read in conjunction with the Prospectus. Full information on the Issuer and this offering is only available on the basis of the combination of this Offer Supplement and the Prospectus. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement. In case of conflict between the Prospectus and this Offer Supplement, this Offer Supplement shall prevail in respect of the Series I and Series J Bonds. Any specific time of day refers to Philippine Standard Time.

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

Issuer	SM Investments Corporation
Issue	Fixed Rate Bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of SM Investments Corporation (the "Bonds"), which is the second tranche of debt securities to be issued from the Company's ₱30,000,000,000 Debt Securities Program registered with the SEC under shelf registration pursuant to SEC MSRD Order No. 12 Series of 2020 with a remaining unissued amount of ₱20,000,000,000, as of the date of this Offer Supplement. After the Offer, assuming that the Over-Subscription Option is fully exercised, the remaining unissued amount under the shelf-registration shall be Five Billion Pesos (₱5,000,000,000).
Offer Size	Ten Billion Pesos (₱10,000,000,000), with an option to increase the issue size by up to Five Billion Pesos (₱5,000,000,000) in the event of over-subscription
Manner of Distribution	Public offering
Use of Proceeds	The net proceeds of the Issue shall be used primarily to refinance existing indebtedness (see "Use of Proceeds")
Issue Price	At par (or 100% of face value)
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00 each, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market
Offer Period	The offer of the Bonds shall commence at 9:00 am on 7 February 2022 and end at 5:00 pm on 11 February 2022
Issue Date	18 February 2022
Maturity Date	Series I Bonds : 3 years from Issue Date Series J Bonds : 5 years from Issue Date
Interest Rate	Series I Bonds : 3.5915% per annum Series J Bonds : 4.7713% per annum
Interest Computation & Payment	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears commencing on 18 August 2022 and on 18 February and 18 August of each year.

Optional Redemption

Prior to the Maturity Date of the Series J Bonds, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, the Series J Bonds in accordance with the following schedule:

Optional Redemption Dates	Optional Redemption Price
Sixth (6th) and seventh (7th) Interest Payment Dates	101.0%
Eighth (8th) and ninth (9th) Interest Payment Dates	100.5%

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds will be redeemed at par or 100% of face value on the Maturity Date.

Bond Rating

The Bonds are rated PRS Aaa with Stable Outlook by the Philippine Rating Services Corporation ("PhilRatings").

Trustee

Philippine National Bank Trust Banking Group

Registrar & Paying Agent

Philippine Depository & Trust Corp.

Taxation of Bond Interest

Interest income derived by Philippine citizens or resident foreign individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 25% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

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

Ranking

The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by law.

Listing

The Bonds are intended to be listed at the Philippine Dealing & Exchange Corp. ("PDEX"), or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volume occurs.

Governing Law

Philippine Law

DESCRIPTION OF THE BONDS

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

The Bonds covered by this Offer Supplement and described in this Offer Supplement are offered by the Company as the second tranche of the Fixed Rate Bonds under its ₱30,000,000,000 Debt Securities Shelf Registration Program (the "Debt Securities Program").

A registration statement filed by the Company covering the Debt Securities Program was rendered effective by the Securities and Exchange Commission ("SEC") by its order and certificate of permit to offer securities for sale for the first tranche of the Fixed Rate Bonds (the "Series H Bonds") issued on 21 September 2020 (the "Shelf Registration"). The first tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱10,000,000,000 and was issued on 2 October 2020 under the Prospectus dated 17 September 2020. The aggregate principal amount of the Series H Bonds remains outstanding and is set to mature on 2 April 2024. Outside of the Debt Securities Program, SMIC has a total of ₱7,683,810,000 in issued and outstanding bonds, all of which is set to mature on 16 July 2022.

The SEC is expected to issue a certificate of permit to offer securities for sale for the second tranche of the Fixed Rate Bonds. Pursuant to such confirmation and certificate of permit to offer securities for sale, the second tranche of the Fixed Rate Bonds will be issued with an aggregate principal amount of ₱10,000,000,000 with an over-subscription of up to ₱5,000,000,000.

The Bonds shall be constituted by a Trust Indenture Agreement executed on 2 February 2022 (the "Trust Agreement") entered into between the Issuer and Philippine National Bank Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on 2 February 2022 (the "Registry and Paying Agency Agreement") in relation to the Bonds between the Issuer and Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the relevant Maturity Dates. See "Description of the Bonds — Redemption and Purchase".

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

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

FORM, DENOMINATION AND TITLE

Form and Denomination

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

Title

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

BOND RATING

The Bonds have been rated PRS Aaa, with Stable Outlook by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. A Stable Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The rating was arrived at after considering the following factors: SMIC's healthy liquidity, sound capitalization, well-experienced shareholders and management, and strong brand equity which is expected to survive the challenges brought about by the prolonged pandemic, and to provide a solid take off point for growth once the domestic economy starts to recover.

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

TRANSFER OF THE BONDS

Register of Bondholders

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

Transfers; Tax Status

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers on a non-Interest Payment Date (1) between taxable and non-taxable entities, (2) between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g., 20%, 25%) are considered as belonging to different tax categories), or (3) between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEX shall be allowed between tax-exempt and non-tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and Philippine Depository & Trust Corp. ("PDTC").

Secondary Trading of the Bonds

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

RANKING

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

INTEREST

Interest Payment Dates

The Bonds bear interest on their principal amount from and including Issue Date at the rates of 3.5915% p.a. for the Series I Bonds and 4.7713% p.a. for the Series J Bonds, payable semi-annually in arrears starting on 18 August 2022 for the first Interest Payment Date, and on 18 February and 18 August of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The Final Interest Rate for each series of the Bonds was based on the sum of a) the simple average of the applicable PHP BVAL rate at 5:00 p.m. for three (3) consecutive Business Days preceding and

inclusive of the Interest Rate Setting Date and b) the relevant Final Spread.

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

Interest Accrual

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

Determination of Interest Amount

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

REDEMPTION AND PURCHASE

Final Redemption

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

Redemption for Taxation Reasons

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

Optional Redemption

Prior to the Maturity Date of the Bonds, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, the Bonds, in accordance with the schedule set forth below.

Bonds	Optional Redemption Dates	Optional Redemption Price
Series J Bonds	Sixth (6 th) and seventh (7 th) Interest Payment Dates	101.0%
	Eighth (8 th) and ninth (9 th) Interest Payment Dates	100.5%

The Issuer shall give no less than thirty (30) nor more than sixty (60) calendar days' prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to

effect such early redemption of the Bonds at the Interest Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemption shall be calculated as the sum of (i) the relevant Optional Redemption Price applied to the principal amount of the outstanding Bonds being redeemed; and (ii) accrued interest on the Bonds as of the relevant Optional Redemption Date.

Purchase and Cancellation

Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

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

Change in Law or Circumstance

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

- (a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations; or
- (b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or
- (c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Upon the occurrence of a Change in Law or Circumstance (as enumerated above), the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice) at par plus accrued interest.

Payments

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

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 25% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
 - (i) a current and valid Bureau of Internal Revenue-certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate. Should the submitted tax exemption certificate, ruling or opinion expire during the bond period, the Bondholder must submit an updated/revalidated tax exemption certificate;
 - (ii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent of any suspension or revocation of the tax exemption certificate, ruling or opinion issued by BIR, with a declaration and warranty of its tax exempt status or entitlement to a preferential rate, and agreeing to indemnify and hold the Issuer and the Registrar and the Paying Agent, and the Joint Lead Underwriters and Joint Bookrunners free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax;
 - (iii) for those who are claiming benefits under tax treaties, duly submitted BIR Form 0901 or Application Form for Treaty Purposes and apostilled/consularized Tax Residency Certificate duly issued by the foreign tax authority as required under BIR Revenue Memorandum Order No. 14-2021; and
 - (iv) such other documentary requirements as may be required by the Issuer and the Registrar and Paying Agent, or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR Revenue Memorandum Order No. 14-2021, which for purposes of claiming tax treaty withholding rate benefits, shall include, among others, evidence of the applicability and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, withholding rate benefits, shall include, among others, evidence of the applicability of a tax treaty and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full

without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar;

- b) Gross Receipts Tax under Section 121 of the Tax Code;
- c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

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

FINANCIAL RATIOS

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain a Debt-to-Equity Ratio of not more than 80:20.

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

NEGATIVE PLEDGE

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

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

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

or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by the Majority Bondholders.

EVENTS AND CONSEQUENCES OF DEFAULT

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

- (a) **Payment Default:** there is failure to pay the interest on any of the Bonds within fourteen (14) days from the due date for payment; or
- (b) **Breach of Other Obligations:** the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations set out in the Bonds or the Trust Agreement and (except where the Trustee considers, and so notifies in writing to the Issuer, that such default is not capable of remedy, when no such notice or grace period as mentioned below shall be required) such default continues for a period of thirty (30) days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) **Cross-Default:** (i) any other present or future Indebtedness of the Issuer or any of its Material Subsidiaries or Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries or Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds 20% of the Issuer's Total Consolidated Assets; or
- (d) **Judgement, Decree or Order:** a final judgment, decree or order has been entered against the Issuer or any Material Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of 20% of the Issuer's Total Consolidated Assets and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against (in the opinion of the Trustee) any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within sixty (60) days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of having been so levied, enforced or sued unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently; or
- (f) **Security Enforced:** any lien, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within sixty (60) days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of such steps being so taken unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently; or
- (g) **Insolvency:** the Issuer or any Material Subsidiary (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be

unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Material Subsidiary; or

- (h) **Winding-up:** an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Material Subsidiary, or the Issuer or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation (i) on terms approved by the Trustee or by a resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary pursuant to a merger of the Material Subsidiary with the Issuer or such other Material Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Material Subsidiary and such surplus assets attributable to the Issuer and/or any other Material Subsidiary are distributed to the Issuer and/or any such other Material Subsidiary; or
- (i) **Bankruptcy Proceedings:** proceedings shall have been initiated against the Issuer or any Material Subsidiary under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of sixty (60) days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) unless and for so long as it is being contested in good faith and diligently; or
- (j) **Validity:** the Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer, under the Trust Agreement or the Bonds; or
- (k) **Expropriation:** any step is taken by any person with a view to the seizure, compulsory acquisition, or expropriation of all or a material part of the assets of the Issuer or any of its Material Subsidiaries; or
- (l) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Agreement;
- (m) **Misrepresentations:** Any statement, representation, or warranty made by the Issuer in the Trust Agreement or in any other document delivered or made pursuant thereto shall prove to be incorrect, misleading, or untrue in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect, misleading, or untrue continue for more than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect; or
- (n) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs provided that in the case of paragraph (c), (h) and (i) in relation to a Subsidiary or the Material Subsidiary (as the case may be), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in item (a) of "*Events and Consequences of Default*" above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two (2) consecutive days, further indicating in the published notice that the Bondholders or their

duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

Penalty Interest

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

Payment in the Event of Default

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

Application of Payments

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

Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within seven (7) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

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

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

Ability to File Suit

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

Waiver of Default by the Bondholders

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

SUBSTITUTION

Substitution of the Bonds is not contemplated.

TRUSTEE; NOTICES

Notice to the Trustee

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

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	Joy Jasmin Santos / Maria Victoria Mendoza
Address:	3 rd Floor, PNB Financial Center Diosdado Macapagal Boulevard, Pasay City
Subject:	SMIC Series [I/J] Bonds
Facsimile:	+63 2 8526 3379

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

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Register of

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

Binding and Conclusive Nature

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

Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns or is informed of such events.
- (b) The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Bonds.
- (c) The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the terms and conditions of the Trust Agreement.
- (d) The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement.
- (e) The Trustee shall perform only such duties as are specifically set forth in the Trust Agreement.
- (f) The Trustee, in the performance of its duties, shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (g) None of the provisions contained in the Trust Agreement or Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

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

- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six months (the "*bona fide* Bondholder") may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.
- (c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.
- (d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.
- (e) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.
- (f) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by SMIC.

Successor Trustee

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

provided in the Terms and Conditions, the Trustee's liabilities and obligations shall immediately cease.

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

Reports to the Bondholders

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

- (i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
- (ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

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

Inspection of Documents

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

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

MEETINGS OF BONDHOLDERS

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

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. However, the Trustee shall send notices in respect of any meeting called by SMIC to obtain consent of the Bondholders to an amendment of the Trust Agreement in the following manner: a notice shall be sent to Bondholders detailing the

amendments proposed and consents requested by SMIC not earlier than sixty (60) days nor later than forty-five (45) days prior to the date fixed for the meeting, if the Bondholder fails to respond as required by such notice, the Trustee shall send a second notice to such Bondholder not later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

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

Quorum

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

Procedure for Meetings

- (a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

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

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in

a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

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

Amendments

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

- (1) reduce the amount of Bondholder that must consent to an amendment or waiver;
- (2) reduce the rate of or extend the time for payment of interest on any Bond;
- (3) reduce the principal of or extend the Maturity Date of any Bond;
- (4) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;
- (6) make any Bond payable in money other than that stated in the Bond;
- (7) subordinate the Bonds to any other obligation of SMIC;
- (8) release any Bond interest that may have been granted in favor of the Bondholders;
- (9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- (10) make any change or waiver of this Condition.

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

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any

demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

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

GOVERNING LAW

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

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, without the Over-subscription Option (after deduction of commissions and expenses) is approximately ₱9,887.43 million and is presently intended to be used by the Issuer to refinance its existing debt obligations. Assuming the Over-subscription Option of up to ₱5,000.00 million is fully exercised, the Company expects total net proceeds of approximately ₱14,833.93 million after deducting fees, commissions and expenses.

Net proceeds from this Offer are estimated to be at least as follows:

For a ₱10.0 billion Issue Size		
		Total
Estimated proceeds from the sale of Bonds		₱10,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	75,000,000.00	
SEC Registration	3,787,500.00	
Underwriting and Other Professional Fees		
Underwriting and Issue Management Fees	30,000,000.00	
Legal Fee	1,000,000.00	
Rating Fee	1,000,000.00	
Listing Application Fee	50,000.00	
Listing Maintenance Fee	150,000.00	
Trustee Fees	225,000.00	
Paying Agency and Registry Fees	860,000.00	
Miscellaneous fees ²	500,000.00	
		112,572,500.00
Estimated net proceeds for ₱10.0 billion Issue		₱9,887,427,500.00
For the ₱5.0 billion Oversubscription Option		
		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	37,500,000.00	
Underwriting Fees	15,000,000.00	
Rating Fee	1,000,000.00	
		53,500,000.00
Estimated net proceeds for ₱5.0 billion Oversubscription Option		₱4,946,500,000.00

Total Estimated Net Proceeds (inclusive of Oversubscription Option) --- ₱14,833,927,500.00

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

1. The Issuer will be charged the first year Annual Listing Maintenance Fee of ₱150,000 in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱200,000 per annum; and
3. After the Issue Date, a Paying Agency fee amounting to ₱245,500 is payable every interest payment date. The Registrar will charge a quarterly maintenance fee based on the face value of the Bonds and the number of Bondholders.

² Miscellaneous fees pertain to allowances for marketing expenses such as advertising placements, if any.

The net proceeds of the Offer of approximately ₱9,887.43 million, assuming an Issue Size of ₱10.0 billion, or approximately ₱14,833.93 million, assuming that the ₱5.0 billion over-subscription option is fully exercised, shall be used to refinance existing debt obligations of the Issuer as set out below.

<i>(in million ₱)</i>	₱10.0 billion Issue Size	With Oversubscription Option	Schedule of Disbursement
Debt refinancing	9,887.43		1 st to 3 rd quarter 2022
Debt refinancing		4,946.50	2 nd quarter 2022
	₱ 9,887.43	₱ 4,946.50	

The Issuer intends to use the net proceeds to partially refinance its existing debt obligations. These comprise long-term loans which were utilized primarily to refinance long-term debt of the Issuer. These long-term loans are due to mature in 2022. The details of these loans are set out below in order of repayment priority.

Lender	Outstanding Loan Amount <i>(in million ₱)</i>	Interest Rate	Maturity Date
Mizuho Bank Ltd.	2,958.00	3M LIBOR + 1.0%	28 March 2022
The Hongkong & Shanghai Banking Corp.	2,550.00	3M LIBOR + 1.0%	4 May 2022
Series D Bondholders ³	7,683.81	6.9442%	16 July 2022
Sub-Total	13,191.81		
BDO Unibank, Inc.	2,500.00	4.7500%	25 May 2022
	₱ 15,691.81		

Except for the underwriting fees, issue management fees and expenses related to the Offer, no amount of the proceeds of the Offer will be utilized to pay any outstanding financial obligation to the Joint Issue Managers, and the Joint Lead Underwriters, and Joint Bookrunners. However, note that BDO Capital & Investment Corporation is a wholly owned subsidiary of BDO Unibank, Inc., which is an associate of the Issuer. Should the Over-subscription Option be exercised, part of the proceeds will be used to repay the Issuer's borrowings with BDO Unibank, Inc.⁴

Any shortfall in the net proceeds for the intended uses described above shall be funded by the Issuer from internal sources such as cash flows generated from operations and/or availments from credit facilities provided to the Issuer by various financial institutions.

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

³ The Series D Bonds are fixed rate bonds that were issued on 16 July 2012 at an interest rate of 6.9442% p.a. primarily to finance various project expansions of the Issuer. They have a 10-year tenor and are set to mature on 16 July 2022. The Series D Bonds had a principal aggregate amount of ₱8,658.81 million upon issuance. Of this amount, ₱600.00 million and ₱375.00 million were subsequently redeemed and cancelled on 28 February 2013 and 30 April 2014, respectively, bringing the outstanding amount to ₱7,683.81 million.

⁴ In the event that the Oversubscription Option will be exercised, part of the proceeds will be used to repay SM Investments Corporation's borrowings with BDO Unibank, Inc., the parent company of one of the Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner, BDO Capital. Such may pose a conflict of interest on the part of BDO Capital and may be detrimental to the Issuer or the Bondholders. Nevertheless, while being a wholly owned subsidiary of BDO Unibank, Inc., BDO Capital is an entity separate and distinct from its parent company. It has performed the requisite due diligence as a Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner of the Bonds. Furthermore, BDO Capital is not the lone underwriter for the Bonds as the Bonds is being underwritten by a syndicate of underwriters who have conducted their respective due diligence on the Issuer and the transaction.

The net proceeds from the Issue will not be used to reimburse any officer, director, employee or shareholder for services rendered, assets previously transferred, money loaned or advanced or otherwise.

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

PLAN OF DISTRIBUTION

BDO Capital & Investment Corporation, China Bank Capital Corporation, BPI Capital Corporation, East West Banking Corporation, First Metro Investment Corporation, RCBC Capital Corporation and SB Capital Investment Corporation, pursuant to an Issue Management and Underwriting Agreement with SMIC executed on 2 February 2022 (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite ₱10,000,000,000 on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

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

Joint Lead Underwriters	Amount
BDO Capital & Investment Corporation	₱1,666,680,000
China Bank Capital Corporation	₱1,666,670,000
BPI Capital Corporation	₱1,333,330,000
East West Banking Corporation	₱1,333,330,000
First Metro Investment Corporation	₱1,333,330,000
RCBC Capital Corporation	₱1,333,330,000
SB Capital Investment Corporation	₱1,333,330,000
Total	₱10,000,000,000

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

SMIC will pay the Joint Lead Underwriters a fee of 0.30% based on the principal amount of the Bonds issued. No fees will be given to Broker-Dealers selling the Bonds.

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

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

China Bank Capital, a wholly-owned investment banking subsidiary of China Banking Corporation, was registered and licensed as an investment house in 2015 as a result of the spin-off of China Banking Corporation's Investment Banking Group. The firm offers a full suite of investment banking solutions, which include arranging and managing, and underwriting bond offerings, corporate notes issuances, initial public offerings and follow-on offerings of common and preferred shares, private placements of securities, structured loans, project finance, real estate investment trusts, and asset securitizations. China Bank Capital also provides financial advisory services, such as structuring, valuation, and execution of M&A deals, joint ventures and other corporate transactions.

BPI Capital is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations

as an investment house in December 1994.

East West Banking Corporation is a subsidiary of Filinvest Development Corporation. East West Bank is a universal bank providing a wide range of banking services to retail, commercial, and corporate clients. It was established as a commercial bank in July 1994 and received its universal banking license from the BSP in July 2012. East West Bank is licensed by the SEC to engage in the underwriting or distribution of securities to the public.

First Metro Investment Corporation is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution.

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 47 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of YGC, one of the country's largest fully integrated financial services conglomerates.

SB Capital Investment Corporation is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital Investment Corporation provides a wide range of investment banking services including underwriting of debt and equity securities, project finance, loan syndications, mergers and acquisitions and other corporate/financial advisory services. SB Capital Investment Corporation is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major debt and equity issues.

BDO Capital & Investment Corporation and China Bank Capital Corporation are wholly owned subsidiaries of BDO Unibank, Inc. and China Banking Corporation, respectively, which are associates of SM Investments Corporation. Should the over-subscription option be exercised, part of the proceeds will be used to repay SM Investments Corporation's borrowings with BDO Unibank, Inc.

SALE AND DISTRIBUTION

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

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

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

OFFER PERIOD

The Offer Period for the Bonds shall commence at 9:00 am of 7 February 2022, and end at 5:00 pm

of 11 February 2022.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Joint Lead Underwriters properly completed Applications to Purchase, whether originally signed or electronically submitted (through the e-Securities Issue Portal ("e-SIP")), together with two (2) signature cards, and the full payment of the purchase price of the Bonds in the manner provided in the said Application to Purchase.

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

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

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

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

MINIMUM PURCHASE

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

ALLOTMENT OF THE BONDS

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

ACCEPTANCE OF APPLICATIONS

SMIC and the Joint Lead Underwriters reserve the right to accept or reject applications to purchase the

Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate.

REFUNDS

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

PAYMENTS

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

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

PURCHASE AND CANCELLATION

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

Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

SECONDARY MARKET

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

REGISTRY OF BONDHOLDERS

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

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

CAPITALIZATION AND INDEBTEDNESS

As at 30 September 2021, the authorized capital stock of the Issuer was ₱28.0 billion divided into 2,790 million common shares and 10 million non-voting cumulative and redeemable preferred shares each with ₱10 par value per share, and its issued capital stock was ₱12.0 billion consisting of 1,204,582,867 common shares of ₱10 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Issuer as at 30 September 2021 and as adjusted to give effect to the issue of the Bonds (assuming the Oversubscription Option is not exercised, and assuming the Oversubscription Option is fully exercised). This table should be read in conjunction with the Issuer's unaudited interim condensed consolidated financial statements as at 30 September 2021 and notes thereto, included elsewhere in this Offer Supplement.

	As at 30 September 2021		
	Actual (Unaudited)	Adjusted to assume ₱10.0 billion Issue Size (Unaudited)	Adjusted to assume ₱15.0 billion Issue Size (Unaudited)
<i>(in ₱ millions)</i>			
Short-term debt			
Bank loans	20,658	20,658	20,658
Current portion of long-term debt	43,851	43,851	43,851
Total short-term debt	64,509	64,509	64,509
Long-term debt - net of current portion			
Banks and other financial institutions	396,118	396,118	396,118
The Bonds to be issued	-	10,000	15,000
Total long-term debt - net of current portion	396,118	406,118	411,118
Equity			
Equity Attributable to Owners of the Parent:			
Capital stock	12,046	12,046	12,046
Additional paid-in capital	75,815	75,815	75,815
Equity adjustments from common control transactions	(5,424)	(5,424)	(5,424)
Cost of Parent common shares held by subsidiaries	(25)	(25)	(25)
Cumulative translation adjustment	2,086	2,086	2,086
Net fair value changes on cash flow hedges	(1,993)	(1,993)	(1,993)
Net unrealized gain on financial assets at FVOCI	14,757	14,757	14,757
Remeasurement loss on defined benefit asset/obligation	(6,002)	(6,002)	(6,002)
Retained earnings			
Appropriated	37,000	37,000	37,000
Unappropriated	297,940	297,940	297,940
Total Equity Attributable to Owners of the Parent	426,200	426,200	426,200
Total capitalization	886,827	896,827	901,827

Notes:

- (1) Adjusted amount as at 30 September 2021 includes gross proceeds of the principal amount of the Bonds offered.
- (2) Total capitalization is the sum of short-term debt, long-term debt and equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, (ii) the audited consolidated financial statements as at 31 December 2020, 2019 and 2018 and for the years ended 31 December 2020, 2019, and 2018 and the notes thereto, and (iii) the unaudited interim condensed consolidated financial statements as at 30 September 2021 and for the nine-month periods ended 30 September 2021 and 2020 and the notes thereto.

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On 27 December 2019, the SEC approved the amendment of the Issuer's Articles of Incorporation changing its corporate life to perpetual. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines.

The Issuer is one of the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The Group's business activities and interests are divided into three principal business segments:

- Its Retail arm, SM Retail Inc., operates department stores under The SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others;
- Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in Residential property development under its SM Development Corporation subsidiary, commercial property development, as well as various hotels and convention centers; and
- Its Financial Services and Others segment is composed of the following:
 - The Banking Group comprised of BDO Unibank, Inc. ("BDO"), the country's largest bank by resources, and China Banking Corporation ("China Bank"); and
 - The Issuer's equity investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

As at 30 September and 31 December 2021, the Issuer had two principal consolidated subsidiaries, namely, SM Prime and SM Retail, and two principal equity-accounted associates, namely, BDO and China Bank, whose shares (except for SM Retail) are listed on the PSE, in which the Issuer had effective interests of 49.7%, 77.3%, 45.3%, and 22.5%, respectively.

As at 31 December 2021, there were 3,214 SM Retail stores in operation: 68 *SM Stores*, 61 *SM Supermarkets*, 214 *Savemore* stores, 53 *SM Hypermarkets*, 77 *WalterMart* stores, 1,207 *Alfamart* stores, and 1,534 specialty stores. In addition, there were 1,079 specialty stores under SM Retail's associate companies in operation including *Uniqlo* and *Watsons*, among others. In 2021, 292 new stores were opened including 202 *Alfamart* stores and 26 *Ace Hardware* stores. 83 *Watsons* stores were also opened during the period.

As of 31 December 2021, there were 85 malls in operation, 78 in the Philippines with total GFA of 9.0 million square meters and 7 in China with total GFA of 1.3 million square meters.

For the years ended 31 December 2018, 2019 and 2020, the Issuer's audited consolidated revenues were ₱449,788.2 million, ₱501,969.3 million, and ₱394,185.7 million, respectively, and its audited consolidated net income attributable to owners of the parent were ₱37,078.3 million, ₱44,568.2 million,

and ₱23,390.0 million, respectively. For the nine months ended 30 September 2021, the Issuer's unaudited consolidated revenues was ₱289,365.0 million and its unaudited consolidated net income attributable to owners of the parent was ₱27,240.0 million.

As at 31 December 2018, 2019 and 2020, the Issuer's audited consolidated total assets were ₱1,060,642.3 million, ₱1,144,164.6 million, and ₱1,224,523.7 million, respectively, and its audited total equity was ₱492,290.0 million, ₱536,151.5 million, and ₱564,727.9 million, respectively. As at 30 September 2021, the Issuer's unaudited consolidated total assets was ₱1,288,119.2 million and its unaudited total equity was ₱599,049.3 million.

As of the date of this Offer Supplement, the Issuer is not aware of any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

Basis of Preparation

Basis of Preparation

The accompanying interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through other comprehensive income (FVOCI) which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency. All values are rounded to the nearest thousand Peso except when otherwise indicated.

The interim condensed consolidated financial statements have been prepared under the going concern assumption. The Company believes that its business would remain relevant despite the challenges posed by the COVID-19 pandemic. Despite the adverse impact of the COVID-19 pandemic on short-term business results, long-term prospects remain attractive.

Statement of Compliance

The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*, as modified by the application of the reporting reliefs issued and approved by SEC under Memorandum Circular (MC) No. 34-2020 in response to the COVID-19 pandemic in "Assessing if the transaction price includes a significant financing component as discussed in Philippine Interpretations Committee (PIC) Q&A No. 2018-12-D," PFRS 15 Implementation Issues Affecting the Real Estate Industry" and application of "IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, *Borrowing Cost*)".

On 8 July 2021, to assist real estate companies in adopting the above-mentioned PIC Q&A and IFRIC pronouncement and enable them to fully comply with PFRS 15 and revert to full PFRS, the SEC issued SEC MC No. 8, series of 2021 amending the transition provision of the above PIC Q&A and IFRIC pronouncement, which would provide real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach when they apply the above provisions of the PIC Q&A and IFRIC pronouncement.

The details of the impact of adoption of the above financial reporting reliefs are discussed in Note 3 to the interim condensed consolidated financial statements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting 1 January 2021:

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark*

Reform - Phase 2

- Amendments to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*
- Adoption of the Provisions of PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02), PIC Q&A No. 2018-12-H, and PIC Q&A 2018-14 (as amended by PIC Q&A 2020-05)

Please refer to Note 3 of the Company's unaudited interim condensed consolidated financial statements, included elsewhere in the Offer Supplement, for the effect of the adoption of the amended accounting standards.

FINANCIAL PERFORMANCE

Nine months ended 30 September 2021 vs. nine months ended 30 September 2020

For the nine months ended 30 September 2021, the Group reported higher *Net Income Attributable to Owners of the Parent* at ₱27.2 billion and *Revenues* at ₱289.4 billion compared to the same period in 2020.

Banking accounted for 60% of net income from core businesses, followed by Property at 27% and Retail at 13%.

Merchandise Sales, which increased by 1.2% to ₱203.4 billion from ₱201.1 billion in 2020, account for 70% of total revenues in 2021. Year-to-date ("YTD") September 2020 *Sales* reflect the abnormally high customer purchase volumes starting from the last two weeks of March to Quarter 3 2020 relative to the scheduled community lockdowns in the succeeding months whereas YTD September 2021 sales reflect the normal pandemic purchase volumes as the customers have already adjusted to the norms of a pandemic environment. The increase also includes the sales of 2GO Group, Inc. ("2GO") and Goldilocks Bakeshop, Inc. ("GBI") from the time that they became subsidiaries of SMIC.

As of 30 September 2021, there were 3,173 SM Retail stores in operation: 66 *SM Stores*, 60 *SM Supermarkets*, 214 *Savemore* stores, 53 *SM Hypermarkets*, 75 *WalterMart* stores, 1,161 Alfamart stores, and 1,544 Specialty stores. In addition, there were 1,050 specialty stores under SM Retail's associate companies in operation including Uniqlo and Watsons, among others. In 2021, 199 new stores were opened including 151 Alfamart stores and 21 Ace Hardware stores. 55 Watsons stores were also opened during the period.

Real Estate Sales decreased by 7.1% to ₱31.5 billion from ₱33.9 billion in 2020. Revenues are recognized in the books based on percentage of completion of the pertinent residential projects.

Rent Revenues, derived mainly from the mall operations of SM Prime, decreased by 3.7% to ₱20.1 billion from ₱20.9 billion in 2020. The decrease is due to lesser mall tenants in operation in 2021 than in 2020 which was for the most part of Quarter 1 2020, operating on pre-pandemic terms.

As of 30 September 2021, there were 83 malls in operation, 76 in the Philippines with total GFA of 8.6 million square meters and 7 in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 95.4% to ₱20.2 billion from ₱10.3 billion in 2020 mainly representing the increase in net income of bank associates.

Cinema Ticket Sales, Amusement and Others decreased by 80.8% to ₱0.2 billion from ₱1.0 billion in 2020. This is attributable to the continuing strict restrictions in the operation of cinemas and other leisure areas as mandated by the government throughout YTD September 2021 whereas YTD September 2020 was for the most part of Quarter 1 2020, operating on pre-pandemic terms.

Dividends, Management Fees and Others increased by 17.4% to ₱10.8 billion from ₱9.2 billion in 2020. Other revenues comprise mainly of 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.

Selling, General and Administrative Expenses decreased by 2.7% to ₱67.2 billion from ₱69.0 billion in 2020 due mainly to the scaled-down operation of certain retail stores and malls and efforts to control costs through rationalization of operations. YTD September 2021 includes the cost and expenses of 2GO and GBI from the time that they became subsidiaries of SMIC.

Income from Operations increased by 31.8% to ₱52.1 billion from ₱39.5 billion in 2020. *Operating Margin* and *Net Margin* is at 18.0% and 12.8%, respectively.

Other Charges (net) decreased by 6.6% to ₱10.1 billion from ₱10.7 billion in 2020. *Interest Expense* remained at ₱12.8 billion in both periods. *Interest Income* decreased by 26.1% to ₱1.5 billion from ₱2.1 billion in 2020 due mainly to lower average balance of cash and time deposits.

Provision for Income Tax decreased by 7.5% to ₱5.0 billion from ₱5.4 billion 2020 due mainly to the adoption of CREATE Act that was signed into law by the President of the Republic of the Philippines on 26 March 2021, which provides for the retroactive application to 01 July 2020 of the lower corporate income tax rate. The approximate effective income tax rate based on net income excluding equity in net earnings of associate companies and joint ventures, dividend income and interest income, is 25% in 2021 compared to 33% in 2020.

Non-controlling interests increased by 20.2% to ₱9.8 billion from ₱8.2 billion in 2020 due mainly to the improved net income of partly-owned subsidiaries.

Other than the foregoing, there was no significant element of income or loss that did not arise from the Company's continuing operations, and there was no seasonal aspect that had a material effect on the Company's financial condition or results of operations.

Year ended 31 December 2020 vs. year ended 31 December 2019

The Group reported a *Net Income Attributable to Owners of the Parent* of ₱23.4 billion, 47.5% lower than 2019, and *Revenues* of ₱394.2 billion, 21.5% lower than 2019. These results reflect the adverse impact of COVID-19.

There is continuing recovery in economic activity and business volumes with the steady easing of community quarantine measures in the major business areas in the country and the consumers adjusting to the new normal living conditions. In the second half of the year, profitability improved across Retail, Property and Banking as the retail stores and malls have fully opened in time for the holiday season. The recovery in the 2nd half is also attributable to reduced restrictions on mobility although limited in momentum until the threat of the pandemic dissipates.

Merchandise Sales, which decreased by 18.2% to ₱289.7 billion from ₱354.1 billion in 2019, accounts for 73.5% of total revenues in 2020. The decrease is attributable mainly to restricted mobility resulting from the quarantine measures imposed by the government. This includes among others, the temporary closure of certain retail stores.

As of 31 December 2020, SM Retail had 3,019 stores in operation. Its stores portfolio include 66 *SM Stores*, 59 *SM Supermarkets*, 209 *Savemore* stores, 52 *SM Hypermarkets*, 71 *WalterMart* stores, 1,012 *Alfamart* stores, and 1,550 *Specialty* stores.

Real Estate Sales increased by 5.7% to ₱47.0 billion from ₱44.5 billion in 2019. The increase is attributable to sales take-up and construction accomplishments of ongoing projects including *Shore 3*, *Bloom*, *Vine*, *Fame* and *Lane* as well as various Ready-For-Occupancy (RFO) projects, particularly those located in Mandaluyong and Pasay. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

SM Residences continued its sales momentum by using various digital sales platforms and offering flexible payment terms to its buyers.

Rent Revenue, derived mainly from the mall operations of SM Prime, decreased by 47.8% to ₱26.9 billion from ₱51.6 billion in 2019. The decrease is due to the temporary closure of malls as well as other businesses during the enhanced community quarantine (ECQ) and modified ECQ (MECQ) periods. In 2020, waived rentals and other charges amounted to ₱23.3 billion.

As of 31 December 2020, SM Prime had 76 malls in the Philippines with total GFA of 8.6 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures decreased by 34.6% to ₱17.0 billion from ₱26.0 billion in 2019 mainly representing the decrease in net income of BDO.

Cinema Ticket Sales, Amusement and Others decreased by 85.8% to ₱1.1 billion from ₱7.7 billion in 2019. This is attributable to the suspension of operations of the cinemas starting 15 March 2020 relative to the closure of malls during the ECQ and MECQ periods. With strict safety measures in place, the cinemas have slowly resumed operations starting October 2020.

Royalty, Management and Service Fees decreased by 46.4% to ₱3.9 billion from ₱7.3 billion in 2019 relative to the drop in business volume.

Other Revenues which include income from 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, decreased by 21.3% to ₱8.0 billion from ₱10.2 billion in 2019 due to the closure of certain retail stores and malls during the ECQ and MECQ periods.

Selling, General and Administrative Expenses decreased by 15.7% to ₱95.5 billion from ₱113.3 billion in 2019 due mainly to the scaled-down operation of certain retail stores and malls during the ECQ period and efforts to control costs through rationalization of operations.

Income from Operations decreased by 45.1% to ₱57.9 billion from ₱105.5 billion in 2019.

Operating Margin and *Net Margin* is at 14.7% and 8.7%, respectively.

Other Charges (net) decreased by 12.7% to ₱16.5 billion from ₱18.8 billion in 2019. *Interest Expense* decreased by 7.6% to ₱18.0 billion from ₱19.5 billion in 2019 due mainly to new debt availments for working capital and capital expenditure requirements. An *Impairment Loss on Investments* amounting to ₱1.0 billion was recognized in 2020 relative to the impairment test done on the Group's investments. *Interest Income* decreased by 37.2% to ₱2.4 billion from ₱3.9 billion in 2019 due mainly to lower average daily balance of cash and time deposits. *Foreign Exchange Gain - net* and others decreased by 83.0% to ₱129.3 million from ₱762.0 million in 2019. The PHP to USD foreign exchange rate amounted to PHP48.023 : USD1.00 in 2020 and PHP50.64 : USD1.00 in 2019.

Provision for Income Tax decreased by 58.7% to ₱7.1 billion from ₱17.2 billion in 2019 due mainly to lower taxable income. The effective income tax rate is 17.1% in 2020 and 19.8% in 2019.

Non-controlling interests decreased by 56.0% to ₱10.9 billion from ₱24.9 billion in 2019 due mainly to the decrease in net income of partly-owned subsidiaries.

Other than the foregoing, there was no significant element of income or loss that did not arise from the Company's continuing operations, and there was no seasonal aspect that had a material effect on the Company's financial condition or results of operations.

Year ended 31 December 2019 vs. year ended 31 December 2018

The Group reported ₱44.6 billion *Net Income Attributable to Owners of the Parent*, 20.2% higher than 2018, and ₱501.7 billion *Revenues*, 11.5% higher than 2018.

Income from Operations increased by 21.4% to ₱105.2 billion from ₱86.6 billion in 2018. *Operating Margin* and *Net Margin* is at 21.0% and 13.8%, respectively.

Merchandise Sales, which grew by 9.4% to ₱354.1 billion from ₱323.7 billion in 2018, accounts for 70.6% of total revenues in 2019. The increase is attributable to the opening of 2 *SM Stores*, 2 *SM Supermarkets*, 9 *Savemore* stores, 1 *SM Hypermarkets*, 8 *WalterMart* stores, 228 *Alfamart* stores, and 162 *Specialty* stores.

The sales contribution of Non-food and Food group is 48:52 in 2019 and 2018.

As of December 31, 2019, SM Retail had 2,799 stores nationwide, namely: 65 *SM Stores*, 58 *SM Supermarkets*, 201 *Savemore* stores, 52 *SM Hypermarkets*, 60 *WalterMart* stores, 754 *Alfamart* stores, and 1,609 *Specialty* stores.

Real Estate Sales increased by 23.7% to ₱44.5 billion from ₱36.0 billion in 2018 due primarily to higher construction accomplishments of launched projects which include *Cheerful*, *Green 2*, *Trees Ph3*, *Hope*, *Charm*, and *Bloom Residences* and continued increase in sales take-up of various projects, particularly those located in Mall of Asia and Makati Central Business District. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime increased by 8.4% to ₱51.6 billion from ₱47.6 billion in 2018. The increase is primarily due to rental rate escalations and expansion of leasable areas. Excluding the new malls, same-mall rental growth is at 7%. Rentals from commercial operations also increased due to the full year revenue of Three E-Com Center and SM Southmall South Tower which opened in 2018.

As of 31 December 2019, SM Prime had 74 malls in the Philippines with total GFA of 8.5 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 35.9% to ₱26.0 billion from ₱19.2 billion in 2018 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees increased by 15.2% to ₱7.3 billion from ₱6.4 billion in 2018.

Dividend Income increased by 13.9% to ₱480.5 million from ₱421.9 million in 2018 due to higher dividends received from investees in 2019.

Other Revenues, which comprise mainly of income from 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 10.0% to ₱10.2 billion from ₱9.3 billion in 2018.

Selling, General and Administrative Expenses increased by 6.4% to ₱113.3 billion from ₱106.4 billion in 2018 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 51.0% to ₱18.8 billion from ₱12.5 billion in 2018. *Interest Expense* increased by 15.8% to ₱19.2 billion from ₱16.6 billion in 2018 due mainly to new debt availments for working capital and capital expenditure requirements. An *Impairment Loss on Investments* amounting to ₱4.0 billion was recognized in 2019 relative to the impairment test done on the Group's investments. *Interest Income* increased by 3.4% to ₱3.9 billion from ₱3.8 billion in 2018 while *Foreign Exchange Gain (Loss) - net* increased by 407.8% to a gain of ₱561.7 million from a loss of ₱182.5 million in 2018.

The PHP to USD foreign exchange rate amounted to PHP50.64 : USD1.00 in 2019 and PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 10.2% to ₱17.2 billion from ₱15.6 billion in 2018 due mainly to increase in taxable income. The effective income tax rate is 19.8% in 2019 and 21.0% in 2018.

Non-controlling interests increased by 15.8% to ₱24.9 billion from ₱21.5 billion in 2018 due mainly to the increase in net income of partly-owned subsidiaries.

Other than the foregoing, there was no significant element of income or loss that did not arise from the Company's continuing operations, and there was no seasonal aspect that had a material effect on the Company's financial condition or results of operations.

Year ended 31 December 2018 vs. year ended 31 December 2017

The Group reported ₱37.1 billion *Net Income Attributable to Owners of the Parent*, 12.6% higher than 2017, and ₱449.8 billion *Revenue*, 13.0% higher than 2017.

Income from Operations increased by 14.2% to ₱86.6 billion from ₱75.8 billion in 2017. *Operating Margin* and *Net Margin* is at 19.3% and 13.0%, respectively.

Merchandise Sales, which grew by 12.2% to ₱323.7 billion from ₱288.5 billion in 2017, accounts for 72.0% of total revenues in 2018. The increase is attributable to the opening of 4 *SM Stores*, 4 *SM Supermarkets*, 15 *Savemore* stores, 6 *SM Hypermarkets*, 7 *WalterMart* stores, 178 *Alfamart* stores, and 121 *Specialty* stores.

The sales contribution of Non-food and Food group is 48:52 in 2018 and 49:51 in 2017.

As of December 31, 2018, SM Retail had 2,328 stores nationwide, namely: 63 *SM Stores*, 56 *SM Supermarkets*, 195 *Savemore* stores, 53 *SM Hypermarkets*, 52 *WalterMart* stores, 526 *Alfamart* stores, and 1,383 *Specialty* stores.

Real Estate Sales increased by 21.6% to ₱36.0 billion from ₱29.6 billion in 2017 due primarily to higher construction accomplishments of projects launched from 2015 to 2017 namely, *Shore 2*, *Shore 3*, *Coast*, and *S Residences* in Pasay, *Fame Residences* in Mandaluyong, and *Spring Residences* in Parañaque and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Filipino Workers' remittances, and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime, increased by 13.0% to ₱47.6 billion from ₱42.1 billion in 2017. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2017 and 2018, namely, *SM CDO Downtown Premier*, *SM City Puerto Princesa*, *SM Center Tuguegarao Downtown*, *SM City Urdaneta Central*, *SM City Telabastagan*, *SM City Legazpi*, *SM Center Ormoc*, and *S Maison* at the Conrad Manila. Excluding the new malls and expansions, same-store rental growth is at 8%. Rentals from commercial operations also increased due to the opening of Three E-Com Center and SM Southmall South Tower in 2018.

As of 31 December 2018, SM Prime had 72 malls in the Philippines with total GFA of 8.3 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 15.2% to ₱19.2 billion from ₱16.6 billion in 2017 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees, which is computed based on percentage of sales, increased by 9.6% to ₱6.4 billion from ₱5.8 billion in 2017.

Gain on Sale of Financial Assets - net decreased by 98.8% to ₱1.3 million from ₱110.2 million in 2017 resulting primarily from the disposal of certain investments in 2017.

Dividend Income decreased by 14.9% to ₱421.9 million from ₱495.6 million in 2017 due to lower dividends received from investees in 2018.

Other Revenues, which comprise mainly of income from 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 14.0% to ₱9.3 billion from ₱8.1 billion in 2017.

Selling, General and Administrative Expenses increased by 15.2% to ₱106.4 billion from ₱92.3 billion in 2017 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 18.2% to ₱12.4 billion from ₱10.5 billion in 2017. *Interest Expense* increased by 6.4% to ₱16.6 billion from ₱15.6 billion in 2017 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* decreased by 6.2% to ₱3.8 billion from ₱4.0 billion in 2017 due mainly to lower balance of time deposits in 2018. *Gain on Fair Value Changes on Derivatives - net* increased by 53.5% to ₱454.9 million from ₱296.3 million in 2017 resulting mainly from the mark-to-market valuation of outstanding forward swap transactions in 2018. *Foreign Exchange Gain (Loss) - net* decreased by 126.1% to a loss of ₱182.5 million from a gain of ₱698.7 million in 2017. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.93 : USD1.00 in 2017 to PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 13.1% to ₱15.6 billion from ₱13.8 billion in 2017 due mainly to increase in taxable income. The effective income tax rate is 21.0% in 2018 and 21.1% in 2017.

Non-controlling interests increased by 15.5% to ₱21.5 billion from ₱18.6 billion in 2017 due to the increase in net income of partly-owned subsidiaries.

Other than the foregoing, there was no significant element of income or loss that did not arise from the Company's continuing operations, and there was no seasonal aspect that had a material effect on the Company's financial condition or results of operations.

FINANCIAL CONDITION

30 September 2021 vs. 31 December 2020

Total *Assets* increased by 5.2% to ₱1,288.1 billion from ₱1,224.5 billion in 2020. Likewise, total *Liabilities* increased by 4.4% to ₱689.1 billion from ₱659.8 billion in 2020.

Current Assets

Current Assets increased by 2.0% to ₱259.7 billion from ₱254.5 billion in 2020.

Cash and Cash Equivalents decreased by 21.7% to ₱61.2 billion from ₱78.2 billion in 2020 due mainly to payments for trade, investments, capital expenditures and debt servicing.

Receivables and Contract Assets increased by 14.9% to ₱69.6 billion from ₱60.5 billion in 2020 due mainly to higher receivable from real estate buyers and receivable from shipping and logistics (see Note 4 of the interim condensed consolidated financial statements).

Inventories increased by 13.3% to ₱81.6 billion from ₱72.1 billion resulting from the ₱2.7 billion increase in merchandise inventory which also includes the inventories of 2GO and GBI (see Note 4 of the interim

condensed consolidated financial statements), ₱6.0 billion increase in condominium and residential units for sale and ₱0.8 billion increase in land and development - current.

Other Current Assets increased by 7.3% to ₱46.3 billion from ₱43.2 billion in 2020 due mainly to higher prepaid taxes.

Noncurrent Assets

Noncurrent Assets increased by 6.0% to ₱1,028.4 billion from ₱970.0 billion in 2020.

Investments in Associate Companies and Joint Ventures increased by 2.3% to ₱303.1 billion from ₱296.3 billion in 2020. The increase mainly represents the equity in net earnings of the Group's associate companies of ₱20.2 billion, particularly from banking, partly offset by ₱2.9 billion dividends, ₱1.3 billion share in the comprehensive income of its associate companies, and the effect of business combination discussed in Note 4 of the interim condensed consolidated financial statements.

Property and Equipment increased by 48.3% to ₱38.7 billion from ₱26.1 billion. The increase includes the property and equipment of 2GO and GBI (see Note 4 of the interim condensed consolidated financial statements).

Investment Properties increased by 5.3% to ₱458.3 billion from ₱435.5 billion in 2020 due mainly to land banking and ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls.

Other Noncurrent Assets increased by 4.6% to ₱117.5 billion from ₱112.3 billion in 2020 due mainly to higher bonds and deposits.

Liabilities

Interest-bearing debt increased by 11.0% to ₱460.6 billion from ₱415.0 billion in 2020 due to net loan availments during the period. The increase includes the interest-bearing debt of 2GO (see Note 4 of the interim condensed consolidated financial statements).

Accounts Payable and Other Current Liabilities decreased by 12.3% to ₱130.9 billion from ₱149.2 billion in 2020 due mainly to settlement of trade payables.

Dividends Payable decreased by 49.5% to ₱1.9 billion from ₱3.8 billion in 2020. This represents dividends due to minority stockholders of certain subsidiaries.

Deferred Tax Liabilities increased by 16.9% to ₱14.8 billion from ₱12.6 billion in 2020 due mainly to unrealized gross profit on sale of real estate and the appraisal increment resulting from the business combination discussed in Note 4 of the interim condensed consolidated financial statements. The increase includes the deferred tax liabilities of 2GO and GBI (see Note 4 of the interim condensed consolidated financial statements).

Equity

Total *Equity* increased by 6.1% to ₱599.0 billion from ₱564.7 billion in 2020.

Equity Attributable to Owners of the Parent increased by 5.5% to ₱426.2 billion from ₱403.8 billion in 2020. This increase resulted mainly from the ₱27.2 billion net income less ₱5.1 billion dividends declared in the nine months of 2021 that is reflected in *Retained earnings, Net Fair Value Changes on Cash Flow Hedges* which decreased to loss of ₱2.0 billion from ₱2.7 billion in 2020 and *Cumulative Translation Adjustment* which increased to ₱2.1 billion from ₱0.9 billion in 2020. These were partly offset by the 10.6% decrease in *Net Unrealized Gain on Financial Assets* to ₱14.8 billion from ₱16.5 billion in 2020 due to lower market valuation of certain investments.

Non-controlling Interests increased by 7.4% to ₱172.9 billion from ₱160.9 billion in 2020 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

SMIC has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the reporting period.

Impact of COVID-19 to the Group's operations

YTD September 2021 reflects pandemic business conditions whereas YTD September 2020 is considered to be a pre-pandemic period considering that the first community quarantine was imposed in the second half of March 2020.

SM Prime's malls in the Philippines continue to feel the impact of mobility restrictions through YTD September 2021. Processes continue to be streamlined to manage costs and initiatives to generate more revenues implemented. SM Prime's malls in China have started to report growth in revenues.

COVID-19 did not have any significant impact on SM Prime's offices business since its primary tenants are business process outsourcing (BPO) offices which were allowed by the Philippine's Inter-Agency Task Force (IATF) to continue to have normal operations throughout the quarantine period.

SM Prime's residential business has made adjustments to its construction and sales operations to align with the pandemic related restrictions. Reservation sales are sustained and show growth compared to the same period in 2020. The credit quality of receivables is within a reasonable level.

SM Prime's hotels continue to operate at reduced levels.

BDO and China Bank both reported growth in earnings for YTD September 2021 which is for the most part attributable to lower interest expense and higher income from fee-based services, despite further provisioning for possible loan losses.

The SM Retail stores demonstrated resilience and high adaptability to the COVID economic environment. Efforts to make its operations more efficient, make shopping more convenient for its customers and grow its digital channels continue.

31 December 2020 vs. 31 December 2019

Total *Assets* increased by 7.0% to ₱1,224.5 billion from ₱1,144.2 billion in 2019. Likewise, total *Liabilities* increased by 8.5% to ₱659.8 billion from ₱608.0 billion in 2019.

Current Assets

Current Assets increased by 2.5% to ₱254.5 billion from ₱248.4 billion in 2019.

Cash and Cash Equivalents increased by 2.6% to ₱78.2 billion from ₱76.2 billion in 2019 due mainly to payments for trade, investments, capital expenditures and debt servicing. The net cash flow from operations decreased by ₱33.7 billion or 50.8% as a result of the drop in net income depicting the extensive impact of COVID-19 to the Group's operations.

Receivables and Contract Assets increased by 12.9% to ₱60.5 billion from ₱53.6 billion in 2019 due mainly to the increase in real estate sales and some delay in the collection of certain receivables relative to the Group's adoption and implementation of the government-mandated Bayanihan Act extending the grace period for the payment of loan amortizations due on or before 31 December 2020.

Inventories decreased by 6.6% to ₱72.1 billion from ₱77.1 billion resulting from the ₱4.8 billion decrease in merchandise inventory and ₱3.0 billion decrease in land and development - current partly offset by the ₱2.7 billion increase in condominium and residential units for sale.

Other Current Assets increased by 6.0% to ₱43.2 billion from ₱40.7 billion in 2019 due mainly to higher prepaid taxes and other prepayments.

Noncurrent Assets

Noncurrent Assets increased by 8.3% to ₱970.0 billion from ₱895.8 billion in 2019.

Financial assets at FVOCI increased by 12.6% to ₱27.3 billion from ₱24.2 billion due mainly to new investments and increase in market values in 2020.

Right-of-use (ROU) Assets - Net increased by 11.5% to ₱42.0 billion from ₱37.7 billion due mainly to ₱7.5 billion new and renewed leases, offset by ₱3.2 billion amortization and lease terminations.

Investments in Associate Companies and Joint Ventures increased by 5.4% to ₱296.3 billion from ₱281.0 billion in 2019. The increase mainly represents the equity in net earnings of the Group's associate companies of ₱17.0 billion, partly offset by ₱4.4 billion dividends and share in the comprehensive income of its associate companies.

Investment Properties increased by 5.4% to ₱435.5 billion from ₱413.0 billion in 2019 due mainly to land banking and ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls.

Other Noncurrent Assets increased by 33.1% to ₱112.3 billion from ₱84.4 billion in 2019 due mainly to the increase in receivable from real estate buyers and additional bonds and deposits for real estate acquisitions and construction.

Current Liabilities

Current Liabilities increased by 22.0% to ₱240.0 billion from ₱196.7 billion in 2019.

Bank Loans increased by 28.9% to ₱24.1 billion from ₱18.7 billion in 2019 due to new loan availments, partly offset by payments.

Accounts Payable and Other Current Liabilities increased by 5.5% to ₱149.2 billion from ₱141.5 billion in 2019 due mainly to the increase in payable to contractors and suppliers related to ongoing projects, liability for purchased land and customers' deposits and non-trade payables.

Income Tax Payable decreased by 19.1% to ₱2.6 billion from ₱3.3 billion in 2019 due mainly to lower income in 2020.

Current Portion of Long-term Debt increased by 106.8% to ₱60.1 billion from ₱29.1 billion in 2019 due mainly to the reclassification of maturing loans from noncurrent.

Dividends Payable decreased by 8.9% to ₱3.8 billion from ₱4.2 billion in 2019. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 2.1% to ₱419.8 billion from ₱411.3 billion in 2019.

Long-term Debt - Net of Current Portion increased by 1.0% to ₱330.7 billion from ₱327.4 billion in 2019 due mainly to new debt availments partly offset by reclassification of maturing debts to current.

Deferred tax liabilities increased by 31.4% to ₱12.6 billion from ₱9.6 billion in 2019 due mainly to unrealized gross profit on sale of real estate for income tax purposes.

Tenants' Deposits and Others increased by 1.9% to ₱47.6 billion from ₱46.7 billion in 2019. This account includes deferred output VAT related to sale of residential projects and deposits from residential buyers and tenants in new malls and office buildings.

Equity

Total *Equity* increased by 5.3% to ₱564.7 billion from ₱536.2 billion in 2019.

Equity Attributable to Owners of the Parent increased by 5.5% to ₱403.8 billion from ₱382.6 billion in 2019. This increase resulted mainly from the (a) ₱18.3 billion net increase in *Retained Earnings* representing the 2020 net income of ₱23.4 billion offset by ₱5.1 billion dividend declaration, (b) *Net Unrealized Gain on Financial Assets at FVOCI* which increased by 14.6% to ₱16.5 billion from ₱14.4 billion in 2019 due mainly to the appreciation in market value of certain investments of the Group, and (c) *Remeasurement loss on defined benefit asset/obligation* which decreased by 29.7% to ₱6.1 billion from ₱8.6 billion in 2019 as a result of the 2020 valuation of the Group's retirement plans. These were partly offset by the (a) *Net Fair Value Changes on Cash Flow Hedges* which decreased to ₱2.7 billion from ₱1.4 billion in 2019, and (b) *Cumulative Translation Adjustment (CTA)* which decreased to ₱0.9 billion from ₱1.3 billion in 2019. The latter is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of its associates.

Non-controlling Interests increased by 4.8% to ₱160.9 billion from ₱153.5 billion in 2019 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

SMIC has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the reporting period.

Impact of COVID-19 to the Group's operations

The impact of COVID-19 to the Group's businesses is manifested in the operating results for the year 2020. Consolidated revenues dropped 21.5% and consolidated net income attributable to owners of the parent dropped 47.5%.

During the quarantine period, certain stores and malls of the Group had to temporarily stop operations. This resulted in the 18.2% decline in Merchandise sales and 47.8% decline in Rent revenues in 2020. To assist its mall tenants, SM Prime granted waivers on rent and/or extended rental discounts that totaled to ₱23.3 billion as at yearend 2020.

COVID-19 did not have any significant impact on SM Prime's offices business since its primary tenants are business process outsourcing (BPO) offices which were allowed by the Philippine Inter-Agency Task Force (IATF) to continue to operate throughout the quarantine period.

Select hotels of the Group, Conrad Manila, Park Inn Clark, Park Inn North EDSA and Park Inn Iloilo remained operational during the quarantine period as these hotels catered to BPO employees and returning overseas Filipino workers/seafarers. The Group's biggest events center, the Mall of Asia Arena, was converted into a Mega Swabbing Facility in partnership with various government agencies. With the easing of quarantine measures throughout the country, SM Prime's hotels have started to commence operations.

In anticipation of potential delinquencies on loans due to the economic impact of COVID-19 on certain sectors, the Group's banks took significantly higher provisions in 2020: BDO with ₱30.2 billion, 4.9x higher than 2019 and China Bank with ₱8.9 billion, 3.5x higher than 2019.

The Group's receivables from real estate sales increased by ₱30.5 billion or 45.7% from yearend 2019. This is the result of the adoption and implementation of the government-mandated Bayanihan Act extending the grace period for the payment of loan amortizations due on or before 31 December 2020

and the DHSUD circular extending the grace period for the payment of loan amortizations that matured during the ECQ period. Efforts to collect these receivables are continuing. The Group believes that the credit quality of its Receivables as of end December 2020 is within reasonable levels.

The net cash flow from operations decreased by ₱33.7 billion or 50.8% to ₱32.6 billion as a result of the significant drop in net income depicting the extensive impact of COVID-19 to the Group's operations.

To support the Group's operational and capital expenditure requirements, (1) the Group availed an additional ₱44.5 billion of debt, net availment, and, (2) SMIC Parent and SM Prime lowered their dividend payout in 2020 to ₱5.1 billion from ₱11.0 billion and ₱5.3 billion from ₱10.5 billion in 2019, respectively.

As at 31 December 2020, the Group has more than adequate unused credit lines and access to the domestic corporate bond market that can be tapped to meet its current maturing obligations, as necessary.

As at 31 December 2020, the Group expended around ₱55.6 billion for capital investments in investment properties, land and development and property and equipment.

The Group expects its businesses to be back to pre-pandemic level of operations in the next 2 to 3 years.

31 December 2019 vs. 31 December 2018

Total *Assets* increased by 7.9% to ₱1,144.2 billion from ₱1,060.6 billion in 2018. Likewise, total *Liabilities* increased by 7.0% to ₱608.0 billion from ₱568.3 billion in 2018.

Current Assets

Current Assets increased by 2.7% to ₱248.4 billion from ₱241.7 billion in 2018.

Cash and Cash Equivalents decreased by 3.9% to ₱76.2 billion from ₱79.3 billion in 2018 due mainly to payments for investments and capital expenditures, net of proceeds from loans.

Inventories increased by 11.1% to ₱77.1 billion from ₱69.4 billion in 2018 due mainly to store openings in 2019 and increase in current portion of Land and development arising from development costs on ongoing projects.

Receivables and Contract Assets increased by 58.8% to ₱53.6 billion from ₱33.8 billion in 2018 due mainly to the 69.6% increase in receivables from real estate buyers resulting from the high take-up of residential projects of SM Prime.

Other Current Assets increased by 24.4% to ₱40.7 billion from ₱32.7 billion in 2018 due mainly to higher prepaid taxes and other prepayments and bonds and deposits.

Noncurrent Assets

Noncurrent Assets increased by 9.4% to ₱895.8 billion from ₱818.9 billion in 2018.

Financial assets - Net of Current Portion decreased by 9.3% to ₱24.2 billion from ₱26.7 billion due mainly to the disposal of certain financial assets.

Investments in Associate Companies and Joint Ventures increased by 8.2% to ₱281.0 billion from ₱259.8 billion in 2018. The increase mainly represents equity in net earnings of associates and investments in new associates, partly offset by dividends received in 2019.

Property and Equipment increased by 6.5% to ₱24.7 billion from ₱23.2 billion due mainly to new stores in 2019.

Investment Properties increased by 13.7% to ₱413.0 billion from ₱363.2 billion in 2018 due mainly to ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives and construction accomplishments during the period.

Other Noncurrent Assets decreased by 26.9% to ₱84.4 billion from ₱115.4 billion in 2018. The decrease is attributable to the reclassification of land use rights to *Right-of-Use (ROU) Assets* related to the adoption of *PFRS 16, Leases* and the application of deposits to various land purchases during the year.

Current Liabilities

Current Liabilities decreased by 7.5% to ₱196.7 billion from ₱212.7 billion in 2018.

Bank Loans decreased by 0.9% to ₱18.7 billion from ₱18.9 billion in 2018 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 13.4% to ₱141.5 billion from ₱124.8 billion in 2018 mainly from higher business volume.

Income Tax Payable decreased by 10.1% to ₱3.3 billion from ₱3.6 billion in 2018 due mainly to higher tax payments and lower income tax for the period.

Current Portion of Long-term Debt decreased by 52.7% to ₱29.1 billion from ₱61.5 billion in 2018 due mainly to payments during the period

Dividends Payable increased by 7.6% to ₱4.2 billion from ₱3.9 billion in 2018. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 15.6% to ₱411.3 billion from ₱355.6 billion in 2018.

Long-term Debt - Net of Current Portion increased by 7.1% to ₱327.4 billion from ₱305.6 billion in 2018 due mainly to new debt availments, partly offset by payments.

Lease Liabilities - Net of Current Portion amounting to ₱27.6 billion is the initial measurement of future lease payments discounted at present value, net of amortization for the year. A corresponding *Right-of-use (ROU) Assets - Net* of ₱37.7 billion was recognized, net of depreciation and accrued rent that was previously set up under PAS 17. These two accounts were recognized and presented separately in the consolidated balance sheet relative to the Group's adoption of *PFRS 16, Leases*, effective 1 January 2019.

Tenants' Deposits and Others increased by 13.2% to ₱46.7 billion from ₱41.3 billion in 2018 due mainly to new malls and office buildings and increase in deposits from residential buyers.

Equity

Total *Equity* increased by 8.9% to ₱536.2 billion from ₱492.3 billion in 2018.

Equity Attributable to Owners of the Parent increased by 8.3% to ₱382.6 billion from ₱353.4 billion in 2018. This increase resulted mainly from the (a) ₱35.3 billion net increase in Retained Earnings due mainly to the ₱44.6 billion *Net Income Attributable to Owners of the Parent*, net of ₱11.0 billion dividend declaration in 2019, and (b) *Net Unrealized Gain on Financial Assets at Fair Value* which increased by 22.6% to ₱14.4 billion from ₱11.7 billion in 2018 due mainly to the appreciation in market value of

certain investments of the Group. These were partially offset by the (a) *Re-measurement loss on defined benefit asset/obligation* which increased by 318.4% to ₱8.6 billion from ₱2.1 billion in 2018 as a result of the valuation of the Group's retirement plan, (b) *Net Fair Value Changes* on Cash Flow Hedges which decreased to a loss of ₱1,406.0 million in 2019 from a gain of ₱62.4 million in 2018, and (c) *Cumulative Translation Adjustment (CTA)* which decreased to ₱1.3 billion from ₱2.0 billion in 2018. The latter is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates.

Non-controlling Interests increased by 10.5% to ₱153.5 billion from ₱138.9 billion in 2018 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

SMIC has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the reporting period.

31 December 2018 vs. 31 December 2017

Total *Assets* increased by 10.5% to ₱1,060.6 billion from ₱960.1 billion in 2017. Likewise, total *Liabilities* increased by 12.3% to ₱568.3 billion from ₱506.3 billion in 2017.

Current Assets

Current Assets increased by 13.7% to ₱241.7 billion from ₱212.5 billion in 2017.

Cash and Cash Equivalents increased by 6.7% to ₱79.3 billion from ₱74.3 billion in 2017 due mainly to net proceeds from loans partially offset by investments and capital expenditures.

Financial Assets decreased by 52.6% to ₱0.6 billion from ₱1.3 billion in 2017 due mainly to maturity of certain investments in bonds in 2018.

Inventories increased by 17.4% to ₱69.4 billion from ₱59.1 billion in 2017 due mainly to the increase in merchandise inventories and in current portion of Land and development arising from development costs on ongoing projects. Bulk of the increase in merchandise inventories came from the Specialty group.

Noncurrent Assets

Noncurrent Assets increased by 9.5% to ₱818.9 billion from ₱747.6 billion in 2017.

Investments in Associate Companies and Joint Ventures increased by 7.3% to ₱259.8 billion from ₱242.1 billion in 2017. The increase mainly represents equity in net earnings of associates in 2018 and investments in new associates, partly offset by dividends received in 2018.

Time Deposits - Net of Current Portion decreased to ₱2.4 billion from ₱26.7 billion in 2017 due mainly to reclassification of maturing time deposits to current. On the other hand, the current portion of *Time Deposits* increased by 95.2% to ₱25.8 billion from ₱13.2 billion in 2017 due mainly to reclassification from non-current and new investments in time deposits coming from proceeds from matured investments in bonds, partly offset by matured time deposits that were used to pay off loans.

Property and Equipment increased by 8.7% to ₱23.2 billion from ₱21.3 billion due mainly to new stores in 2018.

Investment Properties increased by 10.3% to ₱363.2 billion from ₱329.2 billion in 2017 due mainly to ongoing new mall projects and commercial building construction, including the FourE-Com Center as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives and construction accomplishments during the period.

Other Noncurrent Assets increased by 54.8% to ₱115.4 billion from ₱74.6 billion in 2017. The increase mainly represents higher receivable from real estate buyers and bonds and deposits.

Current Liabilities

Current Liabilities increased by 20.9% to ₱212.7 billion from ₱175.9 billion in 2017.

Bank Loans decreased by 21.9% to ₱18.9 billion from ₱24.2 billion in 2017 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 17.1% to ₱124.8 billion from ₱106.6 billion in 2017 mainly from higher business volume.

Income Tax Payable increased by 93.3% to ₱3.6 billion from ₱1.9 billion in 2017 due mainly to higher income tax due.

Current Portion of Long-term Debt increased by 52.6% to ₱61.5 billion from ₱40.3 billion in 2017 due mainly to reclassification of maturing loans.

Dividends Payable increased by 32.9% to ₱3.9 billion from ₱2.9 billion in 2017. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 7.6% to ₱355.6 billion from ₱330.4 billion in 2017.

Long-term Debt - Net of Current Portion increased by 4.4% to ₱305.6 billion from ₱292.6 billion in 2017 due mainly to new debt availments, partly offset by payments.

Tenants' Deposits and Others increased by 38.4% to ₱41.3 billion from ₱29.8 billion in 2017 due mainly to new malls and office buildings and increase in customers' deposits from residential buyers.

Equity

Total *Equity* increased by 8.5% to ₱492.3 billion from ₱453.8 billion in 2017.

Equity Attributable to Owners of the Parent increased by 7.7% to ₱353.4 billion from ₱328.1 billion in 2017. This increase resulted mainly from the (a) ₱30.1 billion net increase in Retained Earnings due to the ₱37.1 billion *Net Income Attributable to Owners of the Parent*, ₱2.9 billion effect from the adoption of PFRS 9, *Financial Instruments*, less ₱9.9 billion dividend declaration during the year, and (b) *Cumulative Translation Adjustment (CTA)* which increased by 25.2% to ₱2.0 billion from ₱1.6 billion in 2017. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates. These were partially offset by (a) *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by 23.3% to ₱11.7 billion from ₱15.3 billion in 2017 due mainly to the depreciation in market value of certain investments of the Group, and (b) *Re-measurement loss on defined benefit asset/obligation* which increased by 194.2% to ₱2.1 billion from ₱0.7 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.5% to ₱138.9 billion from ₱125.7 billion in 2017 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

SMIC has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the reporting period.

KEY PERFORMANCE INDICATORS

The following are the major financial ratios of the Issuer for the years ended 31 December 2018, 2019 and 2020, for the nine months ended 30 September 2021:

	Year ended December 31			Nine months ended 30 September
	2018	2019	2020	2021
Current Ratio	1.1	1.3	1.1	1.3
Acid Test Ratio	0.7	0.7	0.6	0.7
Solvency Ratio	13.0%	14.6%	8.0%	9.9%
Asset to Equity	2.2	2.1	2.2	2.2
Debt-Equity Ratio:				
On Gross Basis	44:56	41:59	42:58	43:57
On Net Basis	36:64	36:64	37:63	40:60
Return on Equity	10.9%	11.9%	6.0%	8.5%
Return on Assets	5.8%	6.2%	2.9%	3.9%
Revenue Growth	13.0%	11.5%	-21.5%	4.7%
Net Margin	13.0%	13.8%	8.7%	12.8%
Net Income Growth	12.6%	20.2%	-47.5%	79%
EBITDA (in ₱ billions)	₱101.8	₱124.8	₱76.6	₱66.8
Interest Cover	6.1x	6.4x	4.3x	5.2x

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

1. Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Acid Test Ratio $\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$
3. Solvency Ratio $\frac{\text{Net Income After Tax + Depreciation and Amortization}}{\text{Total Liabilities}}$
2. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
3. Debt – Equity Ratio
 - Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity + Total Interest Bearing Debt}}$
 - Net Basis $\frac{\text{Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time deposits, Investment in Bonds}}{\text{Total Equity + Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investments in Bonds}}$
4. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
5. Return on Assets $\frac{\text{Net Income after Tax}}{\text{Total Assets}}$

6. Revenue Growth	$\frac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}} - 1$
7. Net Margin	$\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
8. Net Income Growth	$\frac{\text{Net Income Attributable to Equity Holders of the Parent (Current Period)}}{\text{Net Income Attributable to Equity Holders of the Parent (Prior Period)}} - 1$
9. EBITDA	Income from operations + Depreciation & Amortization
10. Interest Cover	$\frac{\text{EBITDA}}{\text{Interest expense}}$

Expansion Plans / Prospects for the Future

For the rest of 2021, expansion and construction of malls, residential and commercial properties, as well as the opening of new retail stores across the various formats, mainly in the Retail Food Group, and selectively in the Retail Non-Food Group, will continue.

Investments in new business ventures would be pursued as opportunities arise. The Company has no material commitments for capital expenditures other than those disclosed in its September 2021 17-Q report.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the reporting year as at balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the Company's continuing operations such as those that may reasonably be expected to have a material favorable or unfavorable impact on net sales or revenues or income. The Company is not aware of any events that will cause a material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments).

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months nor in the following five years. The Company's core businesses of Property, Retail, and Banking have proven to be resilient. Coupled with the Company's conservative management of its balance sheet, short- and long-term liquidity would not be an issue in the foreseeable future.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Issuer is not in default or in breach of any note, loan, lease or other indebtedness or financing arrangement.

There are no significant amounts of the Issuer's trade payables that have not been paid within the stated trade terms.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Offer Supplement and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Philippine Taxation

On 1 January 2018, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" ("TRAIN") Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax. While the TRAIN Act brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This was addressed in the second package of the Comprehensive Tax Reform Program ("CTRP") or Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"), which was signed into law on 26 March 2021, amending provisions of the Tax Code, related to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 25% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

The BIR has issued Revenue Memorandum Order No. 14-2021 ("RMO No. 14-2021") to streamline the procedures and documents for the availment of treaty benefits covering all items of income, derived by non-resident taxpayers from Philippine sources that are entitled to relief from double taxation under the relevant tax treaty. Under this regulation, when the treaty rates have been applied by the withholding agent on the income earned by the non-resident, the former shall file with the International Tax Affairs Division ("ITAD") of the BIR a request for confirmation on the propriety of the withholding tax rates applied on that item of income. On the other hand, if the regular rates have been imposed on the said income, the non-resident shall file a tax treaty relief application ("TTRA") with ITAD. The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. The request for confirmation or TTRA shall be supported by the documentary requirements under RMO No. 14-2021.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess withholding tax.

If a company withholds the regular tax rate instead of the reduced rate applicable under an income tax treaty, a non-resident holder of the company's shares may file a claim for a refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

The claim for refund may be filed independently of, or simultaneously with, the TTRA. If the claim was not filed simultaneously with the TTRA, the office where it was filed shall coordinate with, and defer to, ITAD the resolution of the non-resident's entitlement to treaty benefit. If, on the other hand, the claim was filed simultaneously with the TTRA, it shall be the responsibility of the ITAD to endorse the claim for refund to the proper office that handles the processing of tax refunds after the resolution of the TTRA. At any rate, all issues relating to the application and implementation of treaty provisions shall fall within the exclusive jurisdiction of the ITAD.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources

within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of debt instruments as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals, beginning 01 July 2020, 25% for domestic and resident foreign corporations, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) ("MSMEs"), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32(A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.) On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 25%, if the holder is a non-resident foreign corporation. If the debt instrument is sold by a seller, who is an individual and who is not a dealer in securities, who has held the debt instrument for a period of more than twelve (12) months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain realized by a non-resident alien arising from such sale, regardless of the original instruments, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the

availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6.0%. A bondholder shall be subject to donor's tax based on the transfer of the Bonds by gift at a uniform rate of 6.0% on the basis of the total gifts in excess of ₱250,000.00 made during a calendar year for both individuals and corporate holders, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

PARTIES TO THE OFFER

Issuer

SM INVESTMENTS CORPORATION

Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters

**BDO CAPITAL & INVESTMENT CORPORATION
CHINA BANK CAPITAL CORPORATION**

Joint Bookrunners and Joint Lead Underwriters

**BDO CAPITAL & INVESTMENT CORPORATION
CHINA BANK CAPITAL CORPORATION
BPI CAPITAL CORPORATION
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SB CAPITAL INVESTMENT CORPORATION**

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PHILIPPINE NATIONAL BANK TRUST BANKING GROUP

Registrar and Paying Agent

PHILIPPINE DEPOSITORY & TRUST CORP.

Legal Counsel to the Joint Bookrunners and Joint Lead Underwriters⁵

ANGARA ABELLO CONCEPCION REGALA & CRUZ

Independent Auditors⁵

SYCIP GORRES VELAYO & Co.

⁵ The Legal Counsel to the Joint Bookrunners and Joint Lead Underwriters and the Independent Auditors are independent from and have no direct or indirect interest in SM Investments Corporation.