INVESTMENTS CORPORATION

# SUSTAINING GROWTH, DELIVERING VALUE

2015 ANNUAL REPORT


CONRAD

# OUR BUSINESS PHILOSOPHY

SM Investments Corporation is the Philippines' largest publicly-listed holding company that holds a group of sustainable businesses in retail, property and financial services. The Group thrives on leadership, innovation and highly synergistic operations.

**Our Vision** is to build world-class businesses that are catalysts for development in the communities we serve.

Our long history of sustained growth is an indication of our ability to deliver value for all our stakeholders through sound financial management, leadership, innovation, long-term sustainability efforts and a comprehensive development program for all our host communities.

Through our interests and activities, **Our Mission** is to strive to be a good corporate citizen by partnering with our host communities in providing consistently high standards of service to our customers, look after the welfare of our employees, and deliver sustainable returns to our shareholders at all times, upholding the highest standards of corporate governance in all our businesses.

Over the years, we have been committed to sustaining our growth, in creating value and delivering quality products and services that our millions of customers aspire for. We are here to serve.





# CONTENTS

# CORE BUSINESSES

Retail
PHP 211.4bn
Consolidated Sales ↑ 7.3%

IMP

(FULL YEAR 2015)

## REVENUES

PHP 82.0bn
THE SM STORE ↑ 7.2%

PHP 127.3bn
SM FOOD RETAIL GROUP ↑ 7.5%

## NET INCOME

PHP 6.8bn
SM RETAIL INC. Consolidated Net Income ↑ 16.5%

Property

PHP 71.5bn

Consolidated Revenues ↑ 8.0%

Banking

PHP 72.1bn

Combined Net Interest Income ↑ 10.4%

# ACT

PHP 46.1bn

SM PRIME Recurring Revenues ↑ 11.1%

PHP 25.4bn

SM PRIME Non-recurring Revenues ↑ 2.6%

PHP 28.3bn

SM PRIME Consolidated Net Income ↑ 53.9%

PHP 57.0bn

BDO Net Interest Income ↑ 11.2%

PHP 15.1bn

CHINA BANK Net Interest Income ↑ 7.1%

PHP 25.0bn

BDO Net Income ↑ 9.7%

PHP 5.6bn

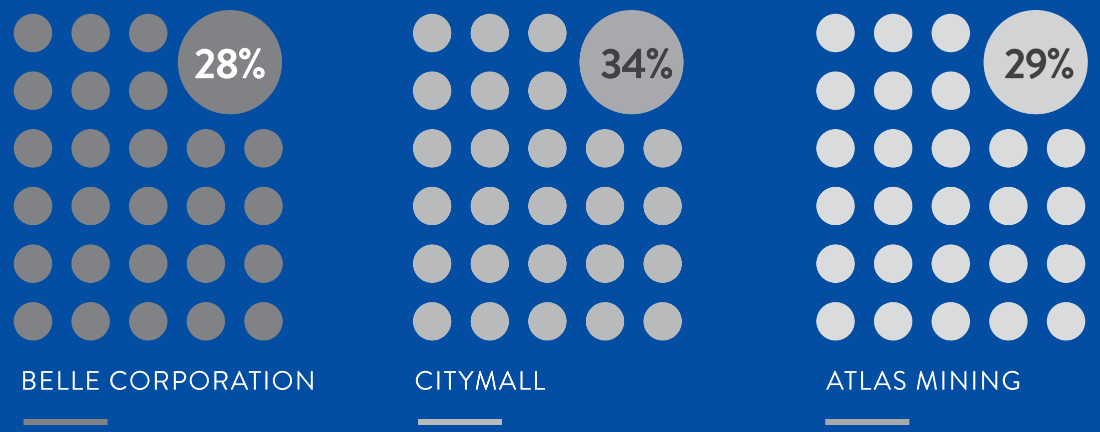
CHINA BANK Net Income ↑ 9.5%

# PORTFOLIO HIGHLIGHTS

## PERCENT OWNERSHIP

### CORE BUSINESSES


### OTHER INVESTMENTS

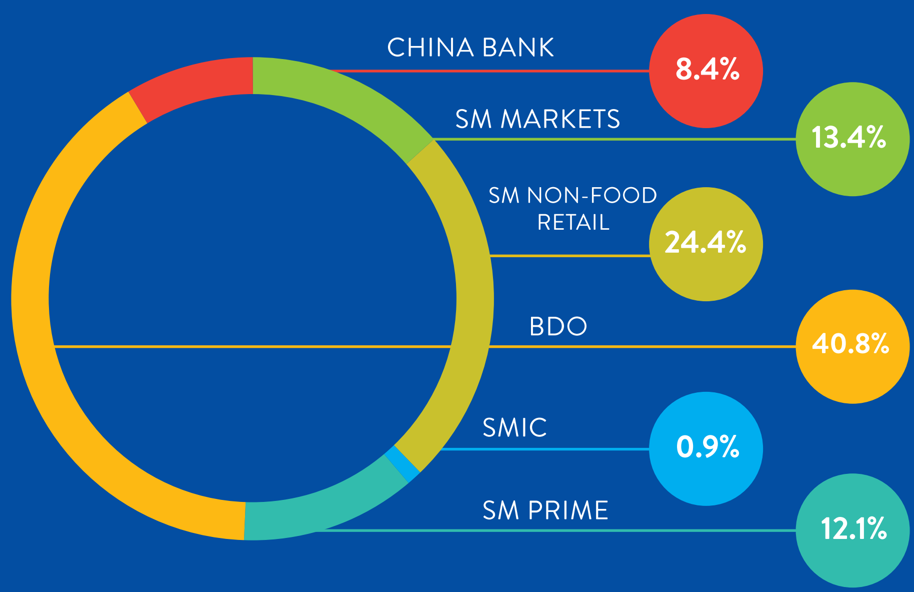


## NET INCOME PROFILE

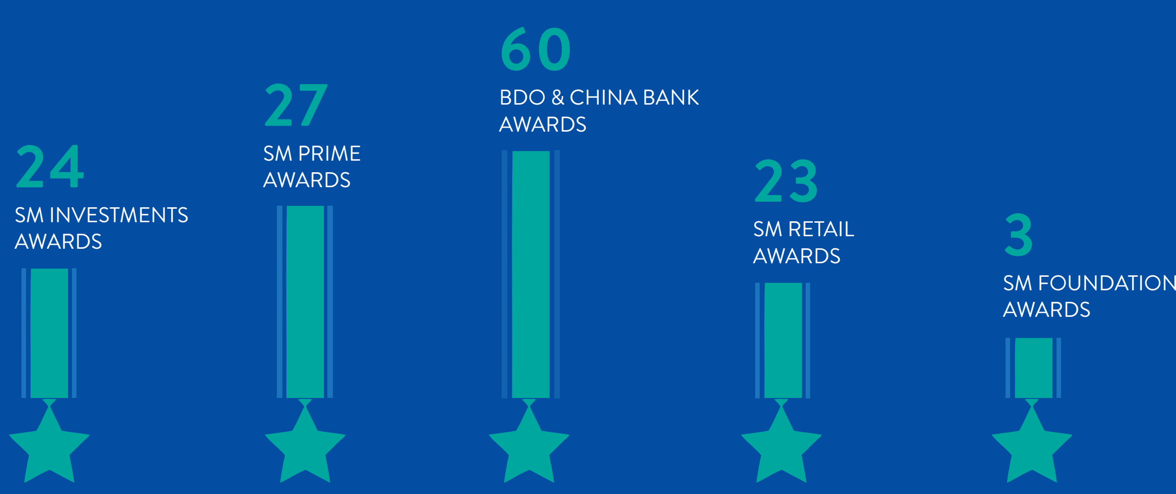
**PHP28.4bn**


## GROUP-WIDE EMPLOYEE HEADCOUNT

**65,439**
**TOTAL EMPLOYEES**




## AWARDS RECEIVED IN 2015

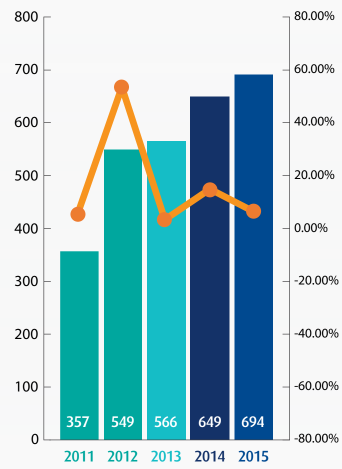


# CONSOLIDATED FINANCIAL HIGHLIGHTS

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Balance Sheet Highlights (PHP billion)** | | | |
| Total Assets | 771.08 | 711.88 | 632.99 |
| Current Assets | 164.33 | 184.04 | 162.94 |
| Non-current Assets | 606.75 | 527.85 | 470.06 |
| Current Liabilities | 111.41 | 96.28 | 132.07 |
| Non-current Liabilities | 277.97 | 265.66 | 200.69 |
| Total Liabilities | 389.38 | 361.94 | 332.75 |
| Stockholders' Equity | 381.70 | 349.95 | 300.24 |
| Book Value per Share (PHP) | 354.16 | 322.73 | 275.58 |
| **Income Statement Highlights (PHP billion)** | | | |
| Revenues | 295.88 | 276.62 | 253.58 |
| Gross Profit | 58.63 | 56.26 | 51.15 |
| Other Income (Expenses) | -7.22 | -5.99 | -7.77 |
| Net Profit Before Tax | 49.69 | 46.46 | 43.66 |
| Consolidated Net Income | 28.46 | 28.40 | 27.45 |
| Basic EPS (PHP) | 35.68 | 35.66 | 34.85 |
| **Financial Ratios** | | | |
| Current Ratio (x) | 1.47 | 1.91 | 1.23 |
| Return on Equity | 10.3% | 12.0% | 13.5% |
| Debt/Equity Ratio (Gross) | 50:50 | 50:50 | 52:48 |
| Revenue Growth | 7.0% | 9.1% | 13.1% |
| Net Income Growth | 0.2% | 3.5% | 11.2% |
| EBITDA (PHP billion) | 68.27 | 63.37 | 60.80 |
| EBITDA Margin | 23.1% | 22.9% | 24.0% |
| Net Margin | 9.6% | 10.3% | 10.8% |
| **Revenue Profile (in percent)** | | | |
| Retail | 73.0% | 72.8% | 73.3% |
| Property | 22.6% | 22.8% | 22.0% |
| Banks* | 4.4% | 4.4% | 4.7% |
| **Income Profile (in percent)** | | | |
| Retail | 22.3% | 20.9% | 21.5% |
| Property | 37.7% | 37.7% | 35.4% |
| Banks | 40.0% | 41.4% | 43.1% |

*Banks are not consolidated in the books of SMIC.

# SHAREHOLDER VALUE

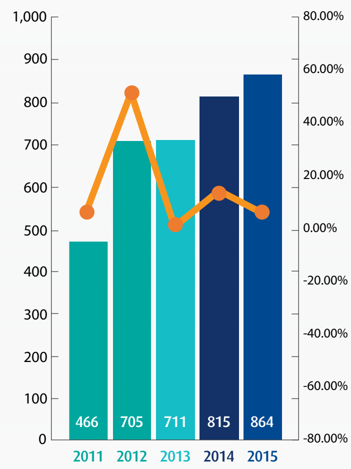



## MARKET CAPITALIZATION

(in billion pesos)

Adjusted Market Cap

Change

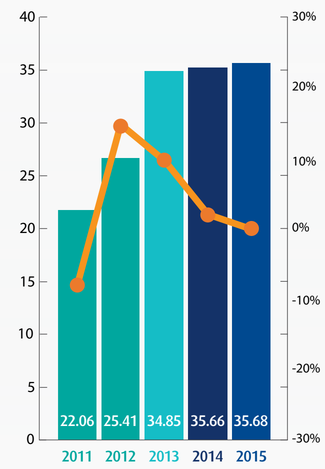



## SHARE PRICE

(in pesos)

Adjusted Share Price

Change

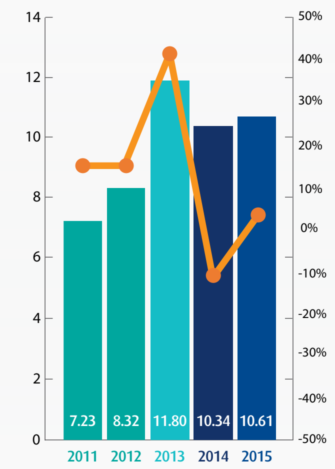



## EARNINGS PER SHARE

(in pesos)

EPS

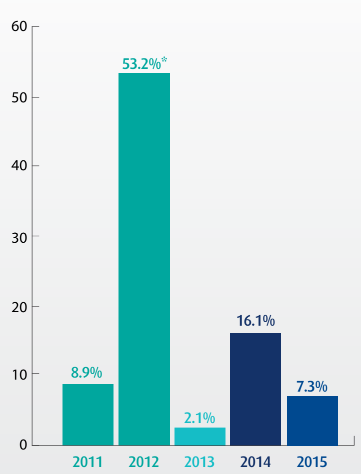
Change




## DIVIDEND PER SHARE

DPS

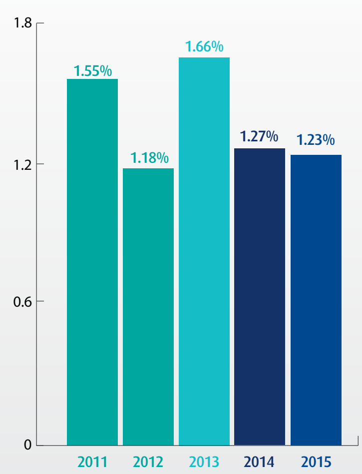
Change




## TOTAL SHAREHOLDER RETURN

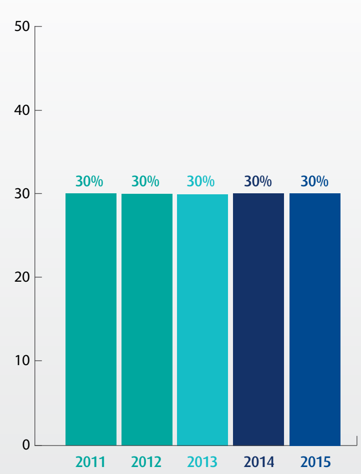
(in percent)

*2012: Extraordinary growth in share price of 54.1%



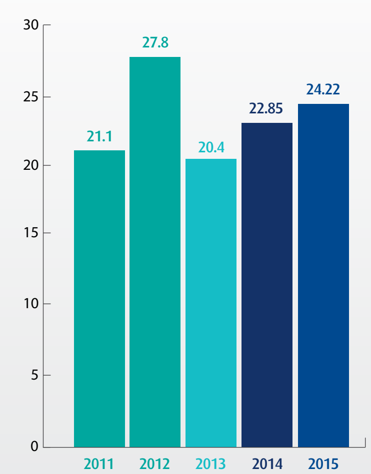

## DIVIDEND YIELD

(in percent)




## DIVIDEND PAYOUT RATIO

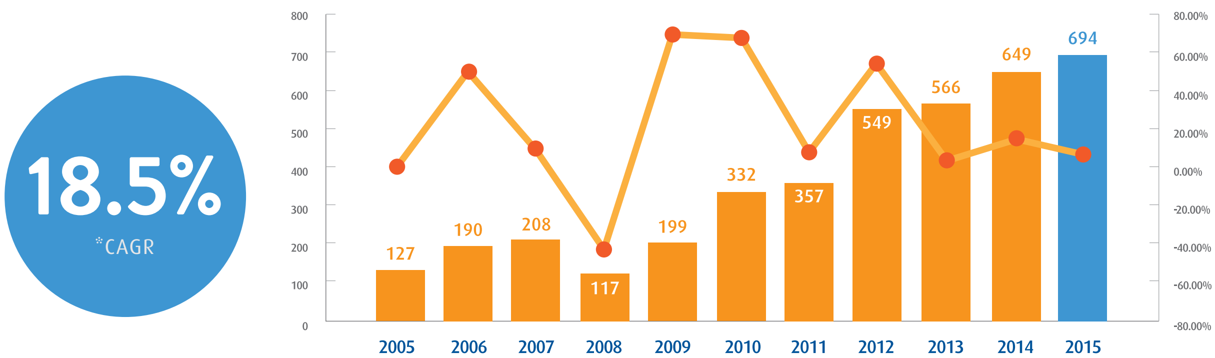
(in percent)




## P/E RATIO

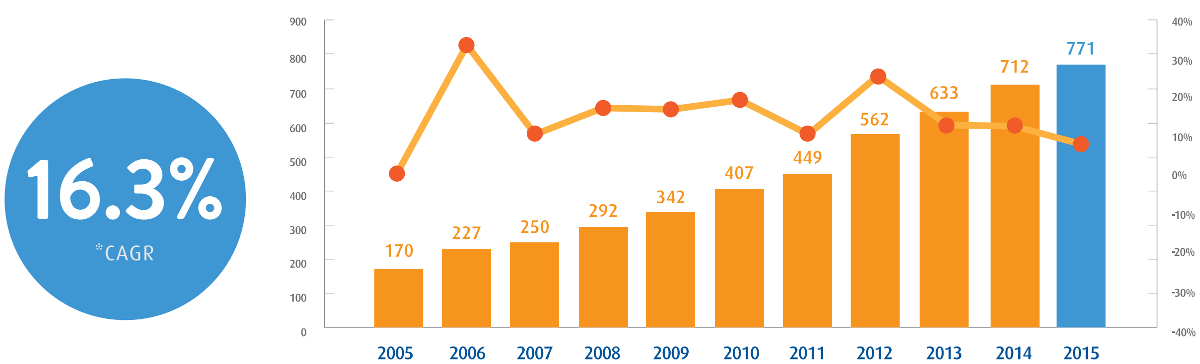
# TEN-YEAR PERFORMANCE OVERVIEW

## MARKET CAPITALIZATION



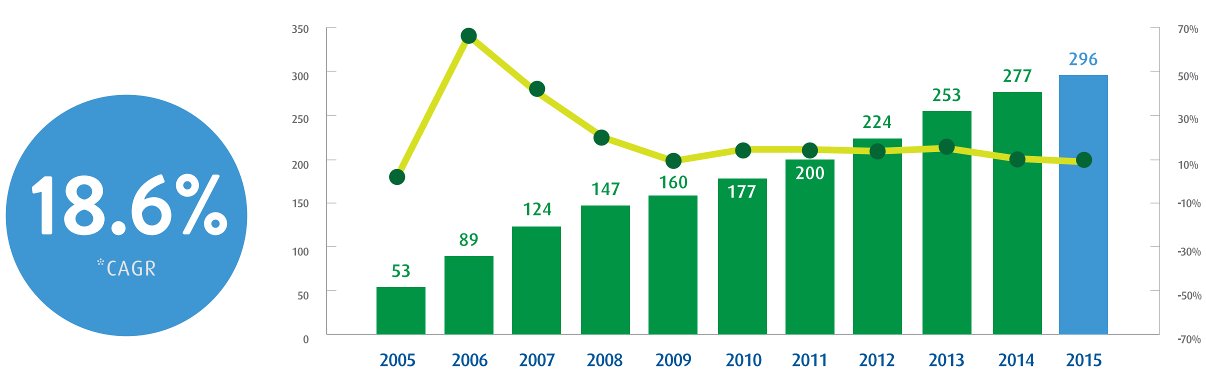

(in billion pesos)

## ASSETS




(in billion pesos)

## REVENUES




(in billion pesos)

*CAGR = Compound Annual Growth Rate

# NET INCOME

13.5%

*CAGR


(in billion pesos)

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## SMIC's 10th Listing Anniversary


SM Investments Corporation (SMIC) marked its 10th year in March 2015 as a publicly-listed company in the Philippine Stock Exchange (PSE).

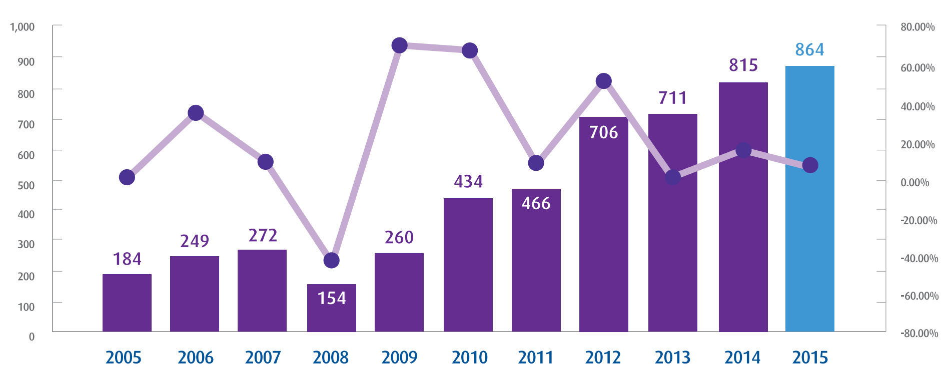
SM officials led by SM Executive Vice President and Chief Finance Officer Jose T. Sio (fifth from right) rang the bell on the local bourse to mark the company's 10th year of listing as well as the opening of trades for the day. In photo are (from left) PSE Director Alejandro T. Yu, SM Senior Vice President (SVP) for Investor Relations Corazon P. Guidote, SM SVP for Corporate Services Elizabeth Anne C. Uychaco, SM SVP for Finance Franklin C. Gomez, SM SVP for Investments Portfolio Frederic C. DyBuncio, SM Independent Director Vicente S. Perez, Jr., SM EVP and CFO Jose T. Sio; PSE Directors Edgardo G. Lacson, Eddie T. Gobing, Emmanuel O. Bautista and PSE Chief Operating Officer Roel A. Refran.

In 2005, SMIC had total assets of PHP170 billion and a market capitalization of PHP127.2 billion. As of end 2015, SM's assets are worth over PHP771 billion with a market capitalization of over PHP694 billion as of March 21. Revenues also accelerated in the last 11 years for a compound annual growth rate (CAGR) of 18.6% with net income showing a CAGR of 13.5%.

# SHARE PRICE

16.7%

*CAGR




(in billion pesos)

*Historical prices adjusted for capital changes.

# OUR BUSINESS FOOTPRINT

## PHILIPPINES

### LUZON

| | |
|---|---|
| 129 | FOOD RETAIL STORES |
| 22 | NON-FOOD RETAIL STORES |
| 27 | MALLS |
| 2 | RESIDENCES |
| 2 | HOTELS |
| 290 | BDO BRANCHES |
| 174 | CHINA BANK BRANCHES |

### METRO MANILA

| | |
|---|---|
| 88 | FOOD RETAIL STORES |
| 21 | NON-FOOD RETAIL STORES |
| 20 | MALLS |
| 25 | RESIDENCES |
| 6 | OFFICE BUILDINGS |
| 2 | CONVENTION CENTERS |
| 1 | TRADE HALL |
| 459 | BDO BRANCHES |
| 238 | CHINA BANK BRANCHES |

### VISAYAS

| | |
|---|---|
| 29 | FOOD RETAIL STORES |
| 6 | NON-FOOD RETAIL STORES |
| 5 | MALLS |
| 1 | HOTEL |
| 1 | CONVENTION CENTER |
| 1 | TRADE HALL |
| 112 | BDO BRANCHES |
| 64 | CHINA BANK BRANCHES |

### MINDANAO

| | |
|---|---|
| 11 | FOOD RETAIL STORES |
| 4 | NON-FOOD RETAIL STORES |
| 4 | MALLS |
| 1 | HOTEL |
| 1 | CONVENTION CENTER |
| 167 | BDO BRANCHES |
| 41 | CHINA BANK BRANCHES |

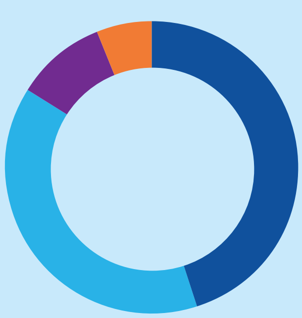
### TOTAL PH BREAKDOWN

| | |
|---|---|
| 257 | FOOD STORES |
| 53 | NON-FOOD STORES |
| 56 | MALLS |
| 27 | RESIDENCES |
| 6 | OFFICE BUILDINGS |
| 4 | HOTELS |
| 4 | CONVENTION CENTERS |
| 2 | TRADE HALLS |
| 1,028 | BDO BRANCHES |
| 517 | CHINA BANK BRANCHES |

# CHINA


## RETAIL FOOTPRINT (PHILIPPINES)

**1,905,596** sqm.

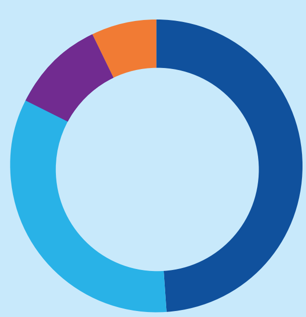


| | |
|---|---|
| METRO MANILA | 44% |
| LUZON | 40% |
| VISAYAS | 11% |
| MINDANAO | 5% |

FOOD & NON-FOOD RETAIL

## MALL FOOTPRINT (PHILIPPINES)

**7,339,344** sqm.

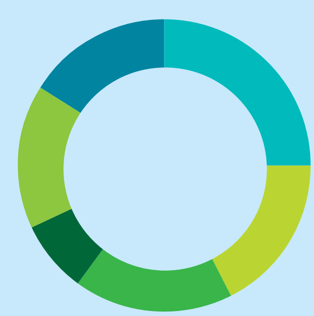


| | |
|---|---|
| METRO MANILA | 45% |
| LUZON | 33% |
| VISAYAS | 15% |
| MINDANAO | 7% |

INCLUDES RETAIL SPACES IN RESIDENTIAL AND COMMERCIAL BUILDINGS

## MALL FOOTPRINT (CHINA)

**945,200** sqm.



| | |
|---|---|
| XIAMEN | 25% |
| JINJIANG | 17.5% |
| CHENGDU | 17.5% |
| SUZHOU | 8% |
| CHONGQING | 16% |
| ZIBO | 16% |

## MESSAGE TO SHAREHOLDERS

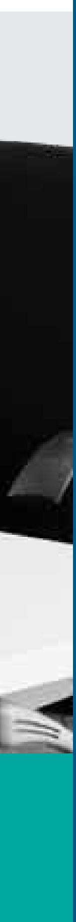
# DELIVERING
VALUE AND COMMITMENT

"Our strategy remains focused on growth and expansion, leveraging on our market leading assets and the extensive synergies between our businesses."

Henry Sy, Sr.
CHAIRMAN

Henry T. Sy, Jr.
VICE CHAIRPERSON

Teresita Sy-Coson
VICE CHAIRPERSON



# Dear Fellow Shareholders,

2015 was a milestone year for SM Investments Corporation (SMIC) as we marked our 10th anniversary as a publicly-listed company on the Philippine Stock Exchange. Over the last decade we experienced tremendous growth. From our initial offering of PHP184 per share in 2005, adjusted for capital changes SM closed at PHP864 at the end of 2015, representing growth of 372.1% or compound annual report growth rate of 13.5% a year, creating significant value for all our shareholders. This performance was the result of a relentless focus on serving our customers, on leveraging the synergies between our businesses and on finding ways to grow and meet the enormous potential of the Philippine market. We continue this focus and retain our ambitions as we move into our second decade.

Our success over the last 10 years was the result of efforts in all our key businesses. Since its merger in 2013, SM Prime has crystallized the value of our diverse property assets, resulting in the second largest local market capitalization after SMIC. Our unlisted retail business has built strong growth momentum, developing new markets across the country and helping establish SM as the most trusted brand in the Philippines. Meanwhile, customer focus and industry consolidating growth has made BDO and China Bank the largest and 7th largest banks in the country respectively.

Last year was another good year for SMIC, despite the volatile global economy and competitive local market environment. We focused on the expansion plans of our core businesses and on improving their operating efficiencies. This resulted in both a broader nationwide footprint and in strong financial performance.

SMIC posted a consolidated net income of PHP28.4 billion for full year 2015 on revenues of PHP295.9 billion. This represented strong recurring earnings growth of 12.6% excluding extraordinary items, driven by robust underlying performance in all three core businesses. We paid particular attention last year to managing our costs and to improving margins across all our operations.

BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), accounted for 40.0% of our consolidated earnings, while SM Prime Holdings, Inc. (SM Prime), our property arm, delivered 37.7% and SM Retail, Inc. 22.3%.

In property, SM Prime continued its robust expansion plans, now operating in its second year as one of the largest integrated property conglomerates in Southeast Asia. SM Prime registered recurring net income growth of 13.6% to PHP20.9 billion in 2015 on 8.0% higher revenues of PHP71.5 billion. Its financial results were driven by the sustained expansion of its mall, commercial and residential portfolio, as well as improved cost efficiencies and continued high levels of recurring income. SM Prime successfully opened six new malls in the Philippines in 2015 as well as SM City Zibo in China. Of particular note was the opening of the 430,000 sqm. SM Seaside City Cebu, as part of our strategy to create a new growth corridor in the Visayas Region, anchored in Cebu. The mall sits on a 30-hectare property, where SM Prime will develop an integrated lifestyle city similar to our successful Mall of Asia complex on Manila Bay. SM Supermalls, our mall business under SM Prime, celebrated its 30th year since opening its first mall at North EDSA. Today we have 56 malls in the Philippines, six in China and a total GFA of 8.3 million sqm.

Our retail businesses reported sustained growth in total sales of 7.3% to PHP211.4 billion, while net income rose 16.5% to PHP6.8 billion. We expanded our retail footprint by adding 39 new stores under SM Markets. Most of these were in our mid-sized Savemore store format and mostly outside of Metro Manila. We also added three SM STORES in Rizal, Nueva Ecija and Cebu. As at end 2015, our total gross selling area for retail stood at over 1.9 million square meters, spread all across the country.

BDO and China Bank achieved good growth in 2015 amidst a challenging environment for the financial sector. BDO delivered a record net income of PHP25.0 billion, representing full year growth of 9.7%. Its strong financial performance was driven organically, with loan growth continuing to be above industry average, and inorganically, with the consolidation of One Network Bank. Meanwhile, China Bank reported net interest growth of 7.1% to PHP15.1 billion, with net income higher by 9.5% to PHP5.6 billion. Both banks remain well capitalized with total assets of PHP2.0 trillion for BDO and PHP526.8 billion for China Bank.

We are very grateful for the various awards given to SMIC and its subsidiaries from leading financial institutions and publications last year. We remain focused on continuously improving our standards and are pleased to be recognized for the importance we place on leadership and innovation, open and transparent relationships with our minority shareholders, good corporate governance and our ongoing commitment to deliver value for all our stakeholders.

Sustainable business practices are integral to the way SM operates and we will continue to champion environmental, social and corporate governance (ESG) matters in all our businesses and in working with our host communities. We recognize that this is a continuing journey and we will ensure that ESG is integrated and further improved across our operations.

Through our social development arm, SM Foundation, Inc., we will keep improving the lives of Filipinos by empowering families, providing opportunities and helping secure their futures through our programs in education, medical missions and healthcare facilities, livelihood training, environmental conservation, disaster risk reduction and relief operations.

We have many reasons to remain optimistic about the markets we serve, particularly in the Philippines where economic growth and resiliency are creating many new opportunities. Our strategy remains focused on further growth and expansion, leveraging our market leading assets and the extensive synergies between our businesses. We continue to take a focused approach to our investments, however, pursuing growth through organic expansion as well as identifying strong strategic partnerships. We remain confident in our ability to deliver steady earnings and asset growth by relentlessly focusing on serving the changing needs of our millions of customers, in turn creating value for our shareholders and enabling us to act as a catalyst for development in the communities we serve.

We would like to extend our sincerest gratitude to our board members, employees, partners, suppliers, host communities, and especially you, our shareholders, for your generous support and contributions in making SM the great company it has become since we first listed in 2005. We especially look forward to continuing these successful partnerships into our next exciting decade of growth.

**Henry Sy, Sr.**
Chairman

**Henry T. Sy, Jr.**
Vice Chairperson

**Teresita Sy-Coson**
Vice Chairperson

# PRESIDENT'S REPORT

# SUSTAINING
## ROBUST GROWTH AND DELIVERING VALUE

"Sustaining robust growth and delivering value for our shareholders are at the heart of our strategy. We will continue to leverage on our strengths."

Harley T. Sy
PRESIDENT

SM Investments Corporation performed well in 2015, despite a challenging global environment and increased volatility in the financial and commodities markets. SM drew its strength mainly from the Philippines' strong domestic economy, still largely driven by consumer spending.

I am therefore pleased to report that we delivered a consolidated net income of PHP28.4 billion in 2015. Excluding extraordinary items, recurring earnings grew 12.6%. Our strong underlying earnings growth in 2015 was due to favorable domestic market conditions and improved efficiencies which helped us widen our margins particularly in retail and property. This was driven by a 16.5% growth in retail earnings, 13.6% growth in property recurring net income and 9.7% growth in bank net income.

Our banks, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), accounted for 40.0% of SM's consolidated earnings; our property holdings, SM Prime Holdings, Inc. (SM Prime) delivered 37.7%, and our retail business, SM Retail, Inc. contributed the remaining 22.3%.

## RETAIL

In retail, our business delivered sustained growth in total sales of 7.3% to PHP211.4 billion in 2015, while net income rose 16.5% to PHP6.8 billion. By end 2015, SM Retail had a total of 310 stores, comprising of 53 SM STORES, 45 SM Supermarkets, 44 SM Hypermarkets, 136 Savemore stores, and 32 WalterMart stores.

As part of our food retail strategy, we intensified our geographic coverage and expanded in both urban and rural communities across the country. We added 39 new stores, most of which are our stand-alone Savemore stores. Moreover, our multi-format growth strategy is aligned with our plans to bring superior value to our customers and make our business offering more relevant to the discerning lifestyles of consumers. This includes SM Retail's investment in the minimart business with Indonesia's leading minimart operator, Alfamart, as well as the successful partnerships with WalterMart and Citymalls which contributed to further growth of SM Food Retail. Likewise, our strategy includes the acquisition of existing chains, the most recent being three stores of Cherry Foodarama.

In non-food retail, we continue to pioneer store innovations in THE SM STORES by offering world-class shopping in the Philippines. In 2015, top British department store chain John Lewis opened its first shop-in-shop in SM Makati offering a wide range of home products. In addition, American home retailer Crate & Barrel opened its flagship store in SM Makati.

THE SM STORES opened three stores in SM San Mateo in Rizal, SM Cabanatuan in Nueva Ecija, and SM City Seaside Mall in Cebu City, bringing the total to 53 stores with gross selling area of 710,997 square meters.

# PRESIDENT'S REPORT

**SHARE PRICE**
ending Dec 2015

**PHP864**
PER SHARE
↑ 6.0%

**MARKET CAPITALIZATION**
as of Dec 2015

**PHP694bn**
↑ 6.9%

## BANKING

BDO Unibank, Inc. and China Banking Corporation achieved robust growth in 2015. BDO delivered a net interest income growth of 11.2% to PHP57.0 billion, with net income up 9.7% to a record-high of PHP25.0 billion. Gross customer loans grew 17.4% to PHP1.3 trillion and total deposits rose by 11.5% to PHP1.7 trillion.

The bank's strong performance was driven by robust growth across all its business segments despite a challenging environment. BDO became the first domestic bank to reach the PHP2.0 trillion mark in total assets.

The bank's capital adequacy ratio (CAR) of 13.3% and common equity tier 1 (CET 1) ratio of 11.7% are well above the regulatory minimum under the current Basel III framework. BDO set aside PHP3.0 billion in provisions even as gross non-performing loan (NPL) ratio declined to 1.2% from 1.3% in 2014. NPL cover remained high at 166.1%.

BDO's year end results reflect the completion of its acquisition of One Network Bank (ONB), the largest rural bank in Mindanao in July 2015. The acquisition of ONB and its 98 branches expanded BDO's regional presence across the country, particularly in its target market in Southern Philippines.

China Bank reported net interest income growth of 7.1% to PHP15.1 billion, as a result of earnings from loans and receivables that expanded by 8.4% to PHP15.9 billion. China Bank's net income grew higher by 9.5% to PHP5.6 billion. It remains well capitalized with expanded assets of PHP526.8 billion, driven by deposit growth and strong loans from its consumer and commercial segments. Common Equity Tier 1 (CET) stood at 12.6% and total capital adequacy ratio (CAR) stood at 13.5%, well above regulatory requirements.

China Bank marked its 95th year of successful operations, a testament to its stability, strong financial performance, and unwavering commitment to its clients' financial success.

## PROPERTY

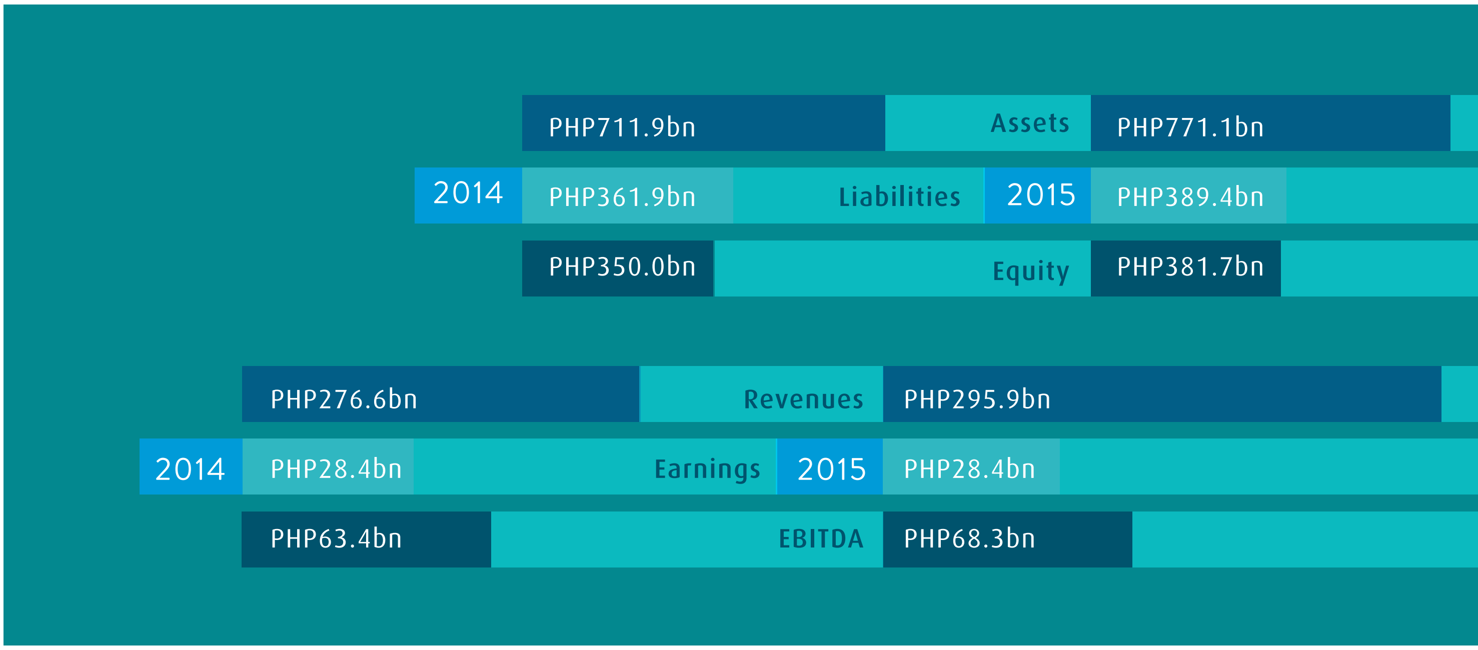
SM Prime Holdings, Inc., our property arm, reported a recurring net income growth of 13.6% to PHP20.9 billion. Consolidated net income increased 53.9% to PHP28.3 billion which includes extraordinary gains of PHP7.4 billion from one-time trading gains on marketable securities booked in the first quarter of the year.

Consolidated revenues rose 8.0% to PHP71.5 billion in 2015, primarily driven by strong rental revenues from malls and commercial spaces, which accounted for 56.5% of the consolidated revenues. Contributing to this sustained growth are malls launched in 2013 and 2014 such as SM Aura Premier, SM City BF Parañaque, Mega Fashion Hall in SM Megamall, SM City Cauayan in Isabela, SM Center Angono in Rizal, SM City San Mateo in Rizal, and the expansion of SM City Bacolod, all of which contributed an additional gross floor area (GFA) of 728,000 square meters.

Rental revenues generated by the malls were complemented by revenues from the fully occupied commercial facilities SM Cyberwest in Quezon City and FiveE-Com Center in Pasay City. These two new office buildings added a GFA of 171,000 square meters.

In China, SM Prime has six shopping malls with a total retail space of 945,200 square meters, including SM City Zibo which opened in Shandong Province in September 2015.

SM Prime's real estate sales accounted for 31.0% of its consolidated revenues, delivering PHP22.2 billion in 2015. Its residential arm, SM Development Corporation (SMDC), posted higher reservation sales by 10.6% year-on-year to 14,227 units in 2015 and achieved a 13.8% growth in sales value worth PHP39.4 billion from PHP34.6 billion in 2014. Reservation sales were largely generated from Shore 2 Residences and Shore Residences in Pasay City, Air Residences and Jazz Residences in Makati City and Fame Residences in Mandaluyong City. For the period, the housing group's net income increased by 8.4% to PHP5.1 billion from PHP4.7 billion in 2014. Currently, SM Prime has 27 residential




projects in the market, 25 of which are in Metro Manila and 2 in Tagaytay.

Consolidated costs on real estate dropped by 2.1% to PHP11.1 billion mainly due to the improving cost efficiencies, tighter monitoring and control of construction costs. This generated higher gross profit margin on real estate sales to 46.0% in 2015 from 44.7% in 2014. Net income margin likewise stood at 24.2% from 22.6% last year.

Other revenues were derived from the mall's cinema and event ticket sales, which increased 12.2% to PHP4.8 billion, equivalent to 6.7% of SM Prime's consolidated revenues. In addition, revenues were derived from amusement income from rides, sports facilities, sales from snack-bars and sales of food and beverages from our hotels amounting to PHP3.8 billion, up by 13.9% from PHP3.3 billion. The growth exhibited was mainly driven by the opening of Sky Ranch Pampanga, improvement in hotels' food and beverages income as well as an increase in sponsorship income.

In 2015, SM Prime successfully completed the FiveE-Com Center. It currently has five office buildings with an estimated gross floor area of 317,568 square meters. For hotels and convention centers, SM Prime expanded its hotel business portfolio with the opening of the Park Inn by Radisson Clark in Pampanga. The 347-room luxurious Conrad Manila, adjacent to SM Mall of Asia and the SMX Convention Center, is set to open in the first half of 2016.

SM Prime marked its SM Supermalls' 30th year anniversary, a major milestone that heralded the birth of its first ever shopping mall in the country, the SM City North EDSA in Quezon City and the tremendous growth of SM Supermalls which introduced the 'malling' culture to the modern lifestyle of the Filipinos. The company recognized its partners and tenants leading in the retail industry in the first ever SM Partners Summit and SM Partners Awards Night. Notably, SM Prime ended the year as the second largest publicly listed company in the Philippines, next to SM Investments Corporation.

## OUTLOOK

Looking ahead, the strategic plans and actions that we have taken remain integral to the success of our businesses in 2016. Sustaining robust growth and delivering value for our shareholders are at the heart of our strategy. We will continue to leverage on our strengths.

In retail, we will pursue the culture of innovation and aggressively expand nationwide through our multi-format strategy.

In property, we will maintain our focus on Philippine expansion for our mall, hotels, commercial and residential portfolios even as we allocate a small portion of our resources in second and third tier cities in China for our mall business. As the Philippine economy gains greater growth momentum, we will embark on aggressive land banking activities either through acquisition or reclamation to allow us to lock in future values and enable us to go into more lifestyle city development projects.

In banking, we will continue to build our presence across the country to serve the evolving needs of our customers and we will use our strong assets to support the broad growth of the Philippine economy. Our banks will continue to grow, to be well capitalized and to increase their efficiencies as they integrate recent acquisitions.

We continue to maintain a healthy balance sheet to support our growth expansion and we remain confident in our ability to sustain our growth momentum and deliver significant returns to our shareholders in 2016 and in the future.

**Harley T. Sy**
President

# RETAIL
## OPERATIONS

## STRENGTHENING OUR MARKET FOCUS

# YEAR IN REVIEW

**310**

TOTAL NO.
OF RETAIL STORES


**PHP211.4bn**

TOTAL SALES ↑ 7.3%

**PHP6.8bn**

NET INCOME ↑ 16.5%

# THE SM STORE

## PHP82.0bn
TOTAL SALES ↑ 7.2%

## PHP2.3bn
NET INCOME ↑ 29.3%

## 710,997sqm
GROSS SELLING AREA ↑ 6.8%

## THE SM STORE FAST FACTS

2015 FIGURES

**3** NEW STORES OPENED IN 2015

**53** TOTAL NUMBER OF STORES

**9M** ACTIVE MEMBERS OF THE SM LOYALTY PROGRAM


PARISIAN
KIDS' SHOES
Keds
PARISIAN
PARISIAN
PARISIAN

## THE SM STORE

# CREATING SUPERIOR VALUE FOR CUSTOMERS


The evolving lifestyle and preference of Filipino consumers and the increasing household consumption encouraged the growth and expansion of SM Retail, Inc. Total sales of THE SM STORES increased 7.2% to PHP82.0 billion in 2015. Add to that, measures were taken to achieve greater operational efficiency resulting in a 29.3% increase in net income to PHP2.3 billion.


From 50 department stores in 2014, THE SM STORE opened three new branches in emerging markets such as San Mateo in Rizal, Cabanatuan in Nueva Ecija, and in Cebu's SM Seaside City. The additional stores increased THE SM STORE's gross selling area to 710,997 sqm. from 665,521 sqm. in 2014. This expansion is aligned with that of SM Supermalls which has accelerated its growth toward the provincial areas.

The shopping habits of people are definitely changing and it is clearly defining the dynamic Philippine retail environment. Against this backdrop, THE SM STORE is making its presence relevant for those who prefer customer-focused innovations and offerings. Its passion to satisfy customers' evolving taste is its key driver in improving not just its look and feel, but also its merchandise mix and service quality.

THE SM STORE is staying ahead of competition by adapting to the rapidly changing markets. It is pioneering efforts in retail innovation and physical space so that store designs are constantly refreshed, showcasing an upscale vibe in its cash counters, store entrance, product display and lighting. It has a wide assortment and creative selection of quality merchandise and value-added services that put the customers at the heart of everything it does.



Aside from these features, THE SM STORE is setting the benchmark in customer service through its Business Services where customers can avail of foreign exchange services, concert tickets, and bills payment. Also, its well-established loyalty programs, SM Advantage Card and SM Prestige, provide its members value-added services which include privileges and shopping convenience with Prestige Lounges where valet shopping, priority fitting rooms, and concierge services are available.

THE SM STORE also redefined the shopping experience by introducing the shop-in-shop concept. It created an avenue for customers to experience new concepts and shop for products of popular international brands. In 2015, American home retailer Crate & Barrel opened its first shop in THE SM STORE Makati, as well as top British department store chain John Lewis offering a wide range of home products.

By constantly thinking of its customers, THE SM STORE elevates the standards of shopping experience for Filipino consumers.  It leads the way toward enhancing lifestyles, providing luxury customer experience and value products through its world-class stores. With its passion to serve millions, THE SM STORE is focused in creating superior value for its customers and stakeholders.

# SM MARKETS

**PHP127.3bn**
TOTAL SALES ⬆ 7.5%

**PHP4.1bn**
NET INCOME ⬆ 10.2%

**39**
NEW STORES OPENED IN 2015

**1,194,600sqm**
GROSS SELLING AREA ⬆ 10.5%

## SM MARKETS FAST FACTS

2015 FIGURES

**257** TOTAL NO. OF STORES

**45** SUPERMARKETS

**44** HYPERMARKETS

**136** SAVEMORE STORES

**32** WALTERMART STORES


CUSTOMER
ASSISTANCE

## SM MARKETS

# RESHAPING THE FOOD RETAIL LANDSCAPE

SM Food Retail is leveraging on its winning retail strategy expanding to new markets across the country. In 2015, the SM Food Retail Group (SM Markets) reported sustained growth of 7.5% to PHP127.3 billion in revenues while net income grew 10.2% at PHP4.1 billion.

The food retail business' good performance in 2015 was a result of continued benefits of a positive economy driven by business process outsourcing (BPO) and OFW remittances. Its increased geographical expansion sustained same store growth complemented by its intensified multi-formats and strategic partnerships approach. The growth in the retail market is driven by the emergence of evolving lifestyles of Filipino consumers and further boosted by bustling communities that are driving its accelerated expansion in both rural and urban communities.

In 2015, the SM Supermarket, SM Hypermarket and Savemore stores were unified under SM Markets as one brand. The move was in line with the company's commitment to serve customers better across a wide geographical area and deliver consistency and efficiency across its food retail portfolio.

Despite a competitive market environment, SM Markets is focused in growing its business to make its stores more relevant to consumers. It brought the SM brand of shopping experience nearer to customers and neighborhoods with 39 new stores in 2015, most of which are mid-size Savemore stores. This brings the number to a total of 257 food retail stores comprised of 45 SM Supermarkets, 44 SM Hypermarkets, 136 Savemore stores, and 32 WalterMart stores. It increased its gross selling area by 10.5% to 1,194,600 sqm.

The food retail group acquired Cherry Foodarama in 2015. Keeping the classic feel of Cherry Foodarama, SM Markets refreshed and modernized the existing chain of stores as well as expanded its fresh offerings and included new assortments of groceries featuring a healthy mix of imported and all-time Pinoy favorites. Loyal Cherry shoppers can now also find appliances, furniture, home/kitchen ware, health and wellness through Watsons pharmacy, and a bills payment counter at the new Cherry stores. Another milestone was the successful launch of international British brand Tesco in June 2015 with SM Markets as its exclusive retailer in the Philippines.

SM Markets received numerous awards in 2015 including Best Supermarket for SM Supermarket and Best Hypermarket for SM Hypermarket accorded by the Philippine Retailers Association during the 18th Outstanding Filipino Retailers and Shopping Centers of the Year Awards Night. In addition to SM Markets' existing Department of Trade and Industry (DTI) Bagwis Gold Seals, this year saw additional recognition with SM Hypermarket being awarded the Corporate Gold Bagwis Seal by DTI along with 27 store-level Gold Bagwis Seals for its outstanding



ethical practices, for operating clean and orderly workplaces, promoting good-employee relationships and upholding fair and honest marketplace.  Two SM Supermarket and 27 Savemore stores each received DTI Gold Bagwis Seals. Likewise, local governments of Olongapo, Pampanga, Makati, Mandurriao, Naga, Delgado, Sta. Rosa and Baguio awarded Top Taxpayers Awards to 12 SM Markets while Savemore stores in Morong, Jaro 1, Los Baños and Tanay also received Top Taxpayer Awards.

SM Markets is more than a group of stores that provides everyday conveniences for customers' needs by bringing SM Markets to every community.  It offers greater convenience to its customers with its one-stop shop services such as banking, bills payment, and money remittances.  Aside from a wide assortment of quality products including Filipino delicacies in support of small medium enterprises, shoppers can also find SM Eats at SM Markets which features freshly made ready-to-eat food.

SM Markets constantly monitors trends and continuously updates its lists of products to address the shopping preference of dynamic consumers, offering greater convenience, value for money and better choices across its retail portfolio.

# PROPERTY

ENRICHING COMMUNITIES
ENHANCING LIFESTYLES

# YEAR IN REVIEW

56 PHILIPPINE MALLS

6 CHINA MALLS

5 HOTELS

27 RESIDENCES

6 CONVENTION CENTERS & TRADE HALLS

5 OFFICE BUILDINGS


PHP71.5bn

CONSOLIDATED REVENUES ↑ 8.0%

PHP28.3bn

NET INCOME ↑ 53.9%

PHP626.7bn

MARKET CAPITALIZATION ↑ 27.3%

PRIME

**PHP42.7bn**
MALLS REVENUES ⬆ 10.4%

**PHP20.9bn**
SM RESIDENCES REVENUES ⬆ 0.9%

**PHP3.5bn**
COMMERCIAL PROPERTIES REVENUES ⬆ 19.0%

**PHP2.7bn**
HOTELS & CONVENTION CENTERS REVENUES ⬆ 18.6%

## SM PRIME FAST FACTS

2015 FIGURES

**3.7M VISITORS** AVERAGE DAILY MALL PEDESTRIAN COUNT (PH & CHINA)

**8.2M sqm** TOTAL MALL GFA (PH & CHINA)

**18,676** MALL TENANTS (PH & CHINA)

**140,849** CINEMA SEATS (PH & CHINA)

**82,841** TOTAL NO. OF RESIDENTIAL UNITS BUILT (PH)

**317,568 sqm** TOTAL OFFICE GFA (PH)


SEASIDE CITY

# SM MALLS

## Special Feature:

# SM SEASIDE CITY CEBU

### Unparalleled Scale and Beauty in the Visayas

SM Prime opened its regional landmark in the Visayas, the SM Seaside City Cebu, scaling up its geographic expansion in the country's new growth corridor. SM Seaside City is SM Prime's 56th mall, also the country's third largest mall with a gross floor area of 430,000 square meters. It is SM's third mall in Cebu after SM City Cebu (273,804 sqm) and SM City Consolacion (103,558 sqm).

SM Seaside City Cebu's world-class and unique architecture takes its inspiration from nature with its nautilus-inspired concentric arcs and resilient design. The mall's interior is accentuated with modern and color-coded spiral staircase and wide-aisled multi-level retail, dining and entertainment spaces.

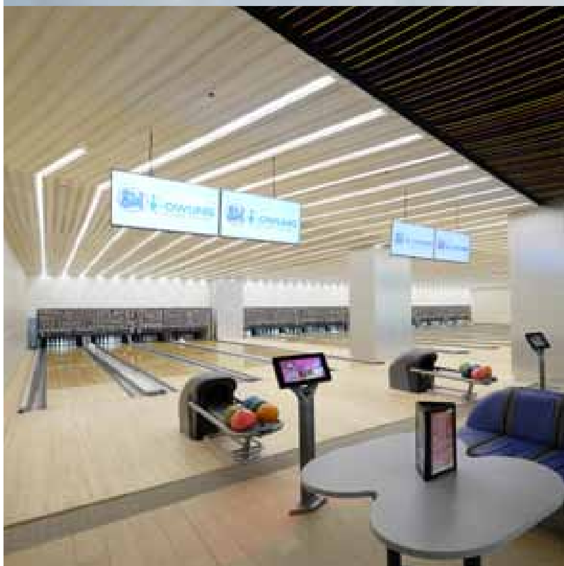
Central to the mall's architecture, SM Seaside City Cebu features a 'Seaside Tower', a 147-meter iconic tower offering a breathtaking view of the lifestyle center with viewing deck, restaurant and panoramic view of the mountain, sea and the entire city. Aside from the Seaside Tower, the mall features The Cube, a gigantic 12x12 meter sculpture; sports and entertainment facilities such as the modern, 16-lane bowling center, Olympic-sized skating rink and state-of-the-art digital cinemas featuring 350-feet large screens designed to be PWD-friendly. It has a Sky Park, an outdoor space with lush greens and waterscapes, offering diverse dining and entertainment options.


Apart from the mall's innovative design and architectural excellence, SM Seaside City showcases resilience and sustainability features. It is elevated by approximately 4.5 meters from the city roads. It has water treatment facilities that recycle used water by 90% and reuse it for the cooling tower, toilet flushing and irrigation. It also uses energy efficiently with its power-saving methods and efficient structural features such as double glazed low e-glass that prevents heat from penetrating the mall by as much as 78%, high efficiency chillers and air-conditioning units, LED lights and inverter type elevator systems that save power by up to 30%, among others.

SM Seaside City Cebu is part of the SM Seaside Complex, a 30-hectare property development of SM Prime in Cebu. The complex is SM Prime's mixed used development in Cebu that integrates retail, high-rise residential and office buildings, hotels, arena and convention centers.

It replicates the successful lifestyle development of SM Mall of Asia Complex in Manila Bay. The mall was the first to be developed within the complex located at the South Road Properties in Cebu City. It offers a state-of-the-art urban center on the waterfront of the province's new South Road Properties development. The Chapel of San Pedro Calungsod is located at the complex and is adjacent to SM Seaside City Cebu. The complex will also house the Cebu Ocean Park, the first ever state-of-the-art marine theme park in the country, offering a unique educational and entertaining experience that showcases marine life attractions.

The new destination mall is SM Prime's crown jewel in the South. It is boosting economic growth, transforming lifestyles and bringing world-class shopping, dining and entertainment to Cebu's vibrant tourism and business landscape.

## SM MALLS

# CREATING MEMORABLE DESTINATIONS

## (New Malls and Expansion in 2015)

SM Prime continued its robust expansion in 2015 with the construction of six additional malls and the expansion of select existing malls in the Philippines and China. SM's expansion strategy for its malls includes the creation of more exciting lifestyle destinations by developing iconic malls and by elevating the retail landscape with new concepts amidst world-class architecture and design, complemented by entertainment and dining options that suit the evolving lifestyles of more dynamic consumers.


SM CITY SAN MATEO


SM MEGACENTER CABANATUAN


SM CITY CABANATUAN


SM CITY ILOILO

In the Philippines, SM Prime grew its malls from 50 in 2014 to 56 by yearend 2015. Its total retail space grew by 12.5% to 7.3 million sqm boosted by the opening of SM Seaside City Cebu with its 430,000 sqm of gross floor area. Other malls that were opened were SM Center Sangandaan, SM Cherry Shaw, SM City Cabanatuan, SM City San Mateo, and SM Megacenter Cabanatuan. Existing malls that grew in size in 2015 were SM Iloilo and SM Lipa.

SM CITY ZIBO


SM CITY TIANJIN

SM CITY ZIBO


SM CITY TIANJIN

In China, SM Prime opened SM City Zibo, its sixth mall located in Zibo, Shandong Province in September 2015. It has a gross floor area of 154,000 sqm. To date, SM Prime has six shopping malls in China with a gross floor area of 945,200 sqm. It is set to open its biggest SM mall in China, the SM City Tianjin in 2016 with a gross floor area of 564,819 sqm. SM City Tianjin will feature three oval-shaped arch buildings linked together by a central ring. It is located in Tianjin Binhai New Area, China's economic development zone near Beijing.

Other SM malls in China include SM Xiamen, SM Jinjiang, SM Chengdu, SM Suzhou and SM Chongqing. Taking into account both Philippine and China malls, SM Prime's total floor space is at 8.3 million sqm.

Expanding its business footprint further in the Philippines, SM Prime is set to open its new mall developments outside Metro Manila in 2016. These include SM Trece Martires in Cavite, SM San Jose Del Monte in Bulacan, SM Cherry Congressional in Quezon City, SM East Ortigas in Mandaluyong City, and SM Cherry Antipolo in Rizal. It is also elevating the lifestyle scene in SM Mall of Asia with its ongoing expansion. Upon completion, it will be SM's largest mall with an expanded gross floor area of 600,000-700,000 sqm from its current 406,962 sqm and will feature a rooftop botanical garden, a football field, a lifestyle area lit by stunning sunset, a theater for performing arts, and the Manila-Acapulco Galleon Museum which will showcase the country's 250-year-old trade heritage. SM Prime is also set to scale up other existing malls namely: SM Calamba in Laguna and SM Naga in Bicol. These developments will further boost economic activities, enhance communities, and create more jobs in these areas.

## SM RESIDENCES

# REDEFINING URBAN LIFESTYLES


SOUTH RESIDENCES LOBBY

SPRING RESIDENCES LAP POOL

SM Development Corporation (SMDC) has provided a much better lifestyle to thousands of proud homeowners with luxurious living spaces complemented by resort-style amenities, a trademark of SMDC. Majority of the SMDC properties are integrated with commercial developments and are close to transport hubs, SM malls, schools and offices that provide a more comfortable and convenient lifestyle to its residents. The homes are designed by leading architectural firms that incorporate landscaping, world-class facilities and retail as part of SMDC's self-contained community development.

In 2015, SMDC turned over more than 10,000 units, welcoming new homeowners to luxurious homes with grand lobbies, Olympic-sized pools, jogging paths, gyms and also function rooms. SMDC launched six new and expansion projects in Quezon City, Taguig City, Paranaque City, Las Pinas City, Mandaluyong City and Mall of Asia Complex. One of the most notable projects is the Shore 2 Residences, a three-tower, 18-storey development, conveniently located within the SM Mall of Asia Complex. Shore 2 Residences stepped up resort living a notch higher as it boasts of an uninterrupted amenity deck that spans the entire 2.5 hectare property. Its offerings include multiple swimming pools, grand lobbies, lush gardens, jogging path, function rooms and children's play area.

In addition, SMDC opened its latest retail podium, the Light Mall at the Light Residences along EDSA in Mandaluyong City, providing greater convenience to residents with its own access to nearby MRT station and a host of retail options including its own Savemore store. The Light Mall also offers state-of-the-art digital cinemas. Designed by an award-winning international architectural firm, Light Residences brings together the


GRASS PAVILLION

LIGHT RESIDENCES


LIGHT MALL

synergies of the SM group in merging urban convenience through its retail and entertainment offerings.

Pioneering a new concept in lifestyle living, SMDC introduced South Residences at the Southmall Complex in Las Piñas City. Due to its proximity to SM Southmall, South Residences gives its residents more than just SMDC's five-star amenities. It also provides access to the latest shopping and dining options, sports and entertainment through its cinema, IMAX Theater, bowling alleys and an ice skating rink.

Expanding its reach in the international setting, SMDC broke ground in Chengdu City in Sichuan, China in 2015. SMDC is set to develop seven residential towers in a 1.9 hectare property that is adjacent to SM City Chengdu.

SMDC's new offerings in 2015 led to higher reservation sales by 10.6% year-on-year to 14,227 units. Reservation sales were boosted by sale of units from Shore 2 Residences and Shore Residences in Pasay City, Air Residences and Jazz Residences in Makati City and Fame Residences in Mandaluyong City.

For 2016, SMDC will mark its 10th year with 10 new developments added to its current portfolio. It is set to launch 15,000 residential units in the cities of Quezon, Bicutan, Sucat, Las Piñas, and Pasay at the Mall of Asia Complex. Aside from its existing properties and developments in Metro Manila and in Tagaytay City, SMDC will be penetrating new markets in Cabanatuan, Cavite and Pampanga. This allows the company to broaden its range of offerings to include mid-rise and house and lot developments. SMDC will continue to create luxurious living spaces which are integrated within SM malls in key locations outside Metro Manila, as well as to build its well-planned horizontal communities in key provincial areas.

# DELIVERING ICONIC BUILDINGS

FiveE-Com Center

FiveE-Com Center

SM Prime through its Commercial Properties Group (CPG) is changing the business landscape with its delivery of iconic office buildings and an integrated lifestyle center through its E-com Centers. It has created strategically located and ideal work spaces attracting companies that are looking for quality and convenience.

Driven by the accelerating trend in the outsourcing services sector (IT-BPO), SM Prime sees the industry as a key contributor to the growth of the Philippine economy. Its steady growth and rising demand for office space is compelling that it pushes Commercial Properties Group to keep delivering world-class offices. To date, CPG has five office buildings with an estimated gross floor area of 317,568 sqm.

In 2015, CPG successfully completed the FiveE-Com Center at the Mall of Asia (MOA) Complex. Designed by Miami-based Arquitectonica, FiveE-com's innovative architecture is characterized by cantilevered rectilinear designs, offering mixed-use areas on its open-air fourth floor podium, similar to the structural design of TwoE-com Center. Aside from its green features, FiveE-Com Center houses Prism Plaza, a podium area that combines a landscaped deck, pond, and retail spaces. The building provides a self-sustaining community with its complete working environment and lifestyle hub suited for its building occupants and office workers.

The completion of the FiveE-com Center in 2015 is part of SM Prime's six-building hub at the MOA Complex. With its state-of-the-art features, complemented by accessible retail shops, the FiveE-Com Center is already 100% occupied with high-profile tenants such as Telstra, Teletech, Vestas, Tupperware, Klaveness and Xerox. It is a 15-level building with a gross floor area of 129,307 sqm. and a leasable area of approximately 82,710 sqm.

ThreeE-Com and the FourE-Com Centers, with their construction now well underway, are scheduled for completion in 2017 and 2019, respectively. The PHP3 billion ThreeE-com Center is a

ThreeE-Com Center

FourE-Com Center

15-storey building which will feature semi-circular twin tower structure. Its unique design is a landmark on its own inspired by nature with its rock and canyon formation represented by two diagonally opposite towers protruding from a podium. It has a landscaped podium deck with waterfalls and will feature dining and outdoor amenities. The building will have a gross floor area of 115,574 sqm. and is projected to generate around PHP600 million in gross rental revenues annually. With its distinct design and sustainability features, the high-energy efficient building aims to receive Gold Leadership in Energy and Environment Design (LEED) Certification upon its completion, making it the first LEED Certified building in MOA Complex.

The FourE-Com Center, on the other hand, is a 16-storey, tri-tower building characterized by prism-like design. The building's design concept will portray crystal formations featuring three adjacent towers springing from a common podium. It will have a gross floor area of 176,366 sqm. and is projected to generate PHP1 billion in gross rental revenues annually. Aside from retail spaces at the 5th floor podium and ground levels, the FourE-Com Center will feature a full basement, 4-level parking, and 11 office levels. It is also a highly efficient building integrated with energy-saving features and innovative design.

## SM HOTELS

# BRINGING LUXURY AND BEST-IN-CLASS HOTELS

## CONRAD MANILA


CONRAD MANILA


C LOUNGE

SM Hotels and Conventions Corp. (SMHCC) is expanding its leisure and hospitality portfolio through hotels that cater to smart business travelers.

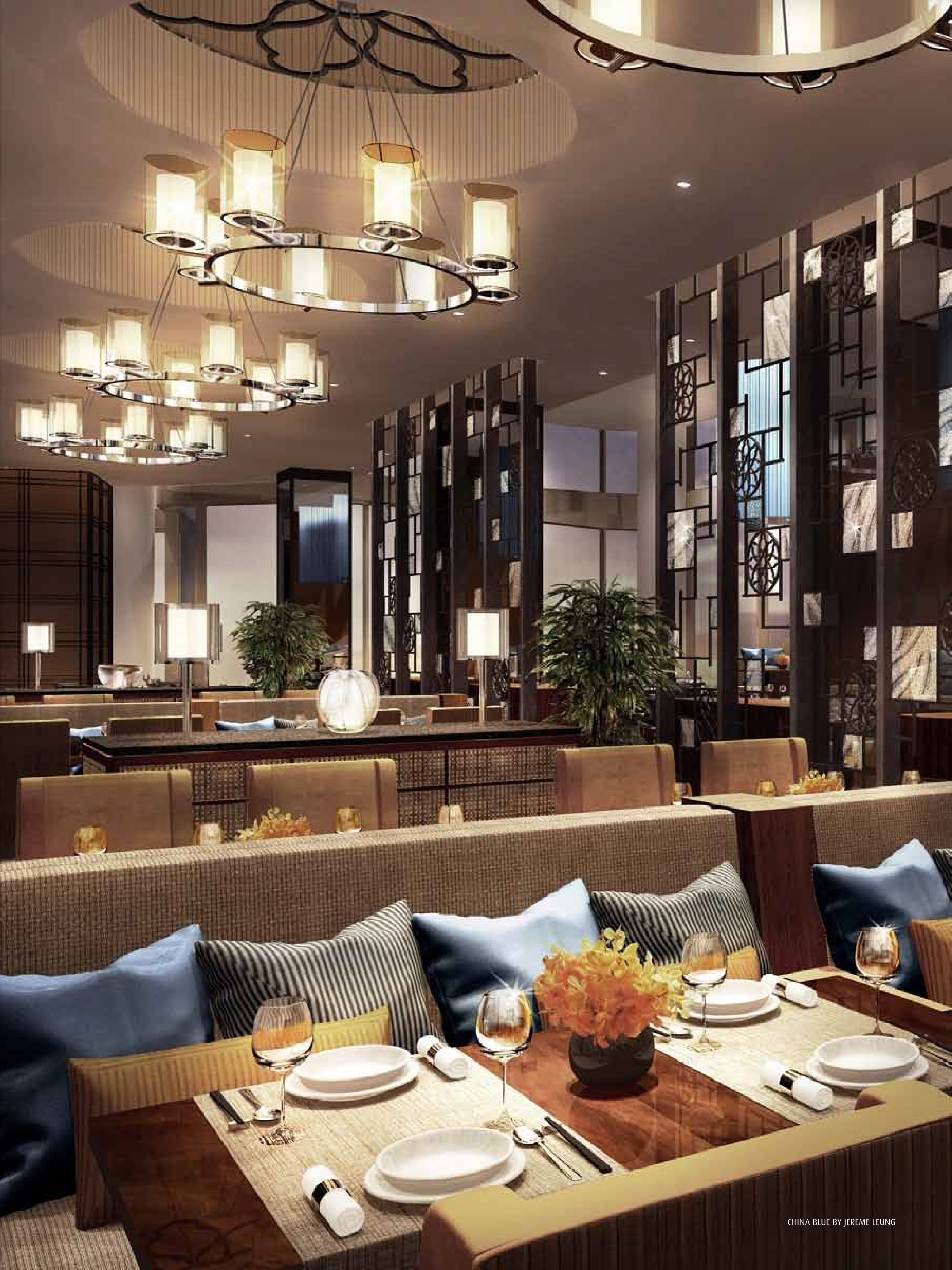
Scaling new heights, it is set to open the luxurious 347-room Conrad Manila at the SM Mall of Asia Complex in the second half of 2016, offering best-in-class service to seasoned business and leisure travelers.

Conrad Manila, the first Conrad Hotels & Resorts brand in the Philippines, is SM's entry into the luxury hotel segment to be operated in partnership with Hilton Worldwide.

Bringing the warmth of Filipino hospitality and world-class facilities, the iconic Conrad Manila offers panoramic and breath-taking views of Manila Bay and its famous sunsets. The distinctive and stunning architecture of the eight-storey Conrad Manila is inspired by cruise ships that ply the bay. Located beside SM Mall of Asia and adjacent to the SMX Convention Center, Conrad Manila boasts of six elegant and multi-functional events space, including two ballrooms and executive lounges. The hotel's interiors will showcase works of renowned Filipino artists. Its guestrooms will feature random accents of rich Spanish colonial heritage of nearby Intramuros and Manila. It has premiere restaurants such as the Brasserie on 3, China Blue by Jereme Leung, C Lounge, pool bar, and Bru Coffee Bar.

Its amenities include an infinity swimming pool, gym, and spa facilities suited for guests and visitors' discerning lifestyle In addition, Conrad Manila has The Veranda, a large 2,000 sqm. venue, which overlooks the city landscape and is ideal for outdoor events and cocktail parties. Its meeting venues are strategically located on the same level with direct connections to the SMX Convention Center via two walkway bridges located at the second level of S Maison the hotel's retail podium. The latter will house sophisticated and high-end establishments including luxury retail stores, fine dining restaurants and three state-of-the-art cinemas.

Conrad Manila will bolster SM's hotel portfolio which currently includes Taal Vista Hotel (261 rooms) in Tagaytay City, Radisson Blu Cebu (396 rooms), Pico Sands Hotel (154 rooms) in Hamilo Coast, Batangas, Park Inn by Radisson Davao (202 rooms) and the newly opened Park Inn by Radisson Clark (154 rooms).



CHINA BLUE BY JEREME LEUNG

# PARK INN BY RADISSON CLARK

LOBBY LOUNGE AT PARK INN BY RADISSON CLARK

Adding to the vibrant tourism landscape of Pampanga, SMHCC opened Park Inn by Radisson Clark in December 2015. SM's newest Park Inn is a partnership between SMHCC and Carlson Rezidor Hotel Group, one of the world's largest and most dynamic hotel groups. It caters to the energetic mid-market segment, offering a clean and personalized environment for its guests.


Anchored on its service philosophy 'Adding Color to Life', Park Inn by Radisson Clark aims to make every guest experience a memorable one through its comfortable and excellent service.

The 154-room hotel that features colorful and contemporary interiors, is centrally located in the city. It is near SM City Clark in Pampanga and only 10 minutes away from the Clark International Airport. Its restaurant 'Hues' offers guests a new dining experience with a hip setting while its lobby exudes the 'Living Room' design theme, giving guests an intimate space to relax and unwind. Aside from its vibrant décor, all hotel rooms are equipped with complimentary high-speed internet for added convenience.

For meetings and social events, Park Inn by Radisson Clark has a 203-square meter meeting room, which can accommodate a maximum of 120 guests. For fitness and leisure, the hotel has a gym and a swimming pool on the ground level to ensure a pleasurable experience for hotel guests with active lifestyles.

# BANKING OPERATIONS

## SUSTAINING GROWTH




**1,545**

TOTAL NO. OF BRANCHES
BDO & CHINA BANK

**3,935**

TOTAL NO. OF ATMs
BDO & CHINA BANK

**PHP2,558.1bn**

TOTAL RESOURCES ↑ 9.6%
BDO & CHINA BANK

**PHP108.5bn**

GROSS OPERATING INCOME ↑ 8.9%
BDO & CHINA BANK

BDO
Unibank, Inc.

**PHP2,031.3bn**
TOTAL RESOURCES ⬆ 9.0%

**PHP25.0bn**
NET PROFIT ⬆ 9.7%

**PHP88.9bn**
GROSS OPERATING INCOME ⬆ 10.2%

## BDO FAST FACTS

2015 FIGURES

**1,028**
DOMESTIC BRANCHES

**3,195**
ATM NETWORK

**PHP1,279.4bn**
GROSS CUSTOMER LOANS ⬆ 17.4%

**13.3%**
CAPITAL ADEQUACY RATIO


find way
PDIC

## BDO UNIBANK, INC.

# FORGING AHEAD



2015 was another banner year for BDO Unibank, Inc. (BDO) as it delivered an all-time high net income of PHP25.0 billion, driven by robust growth across all its business segments. The result represents an increase of 9.7% year-on-year, matching the Bank's earnings guidance for 2015 despite the challenging operating environment. The Bank marked another milestone in 2015 as it became the first domestic bank to reach the PHP2.0 trillion mark in total assets.

BDO's solid performance in 2015 was boosted by its sustained expansion in lending, deposit-taking and fee-based businesses. The Bank's customer loan portfolio grew 17.4% to PHP1.3 trillion, outpacing the industry's growth of 13.6%. Total deposits grew by 11.5% to PHP1.7 trillion, underpinned by the faster 18.7% jump in low-cost deposits. As a result, net interest income amounted to PHP57.0 billion.

Non-interest income rose to PHP31.9 billion, with fee-based service income contributing PHP19.4 billion and trading and foreign exchange gains accounting for PHP7.2 billion. Overall, gross operating income advanced by 10.2% to PHP88.9 billion.

The Bank's operating expense grew at 13.6% due to sustained business and branch expansion as well as the consolidation of One Network Bank (ONB), the largest rural bank in Mindanao. Meanwhile, the Bank set aside PHP3.0 billion in provisions even as gross non-performing loan (NPL) ratio declined to 1.2% from 1.3% in 2014. NPL cover remained high at 166.1%.

The Bank's capital base hit almost PHP200 billion in 2015, with Capital Adequacy Ratio (CAR), Tier 1 Capital ratio and Common Equity Tier 1 (CET1) ratio all settling comfortably above the

current regulatory minimum under the Basel III framework at 13.3% ,11.7% and 11.3%, respectively.

BDO strengthened its business franchise further in 2015 through increased client coverage and branch expansion. The Bank's acquisition of One Network Bank in July 2015 bolstered its market reach in the Southern Philippines, opening new and better ways of providing service to its growing clientele. BDO remains the country's largest bank in terms of total assets, loans, deposits and trust funds. It has one of the largest distribution network with more than 1,000 operating branches and over 3,000 ATMs nationwide. Aside from its extensive market presence locally, BDO's international footprint includes a branch in Hong Kong and 26 overseas remittance and representative offices that span across Asia, Europe, North America, and the Middle East.

With the Bank's robust financial performance, solid balance sheet and capital base, focused growth strategy, and strong business franchise, BDO is in a solid position to take its business further and take advantage of the country's growth opportunities in 2016. BDO will continue to serve its fast-growing and diverse clientele, finding better ways to innovate and maintain successful business relationships with its customers, and forging ahead as it remains resilient amid external and domestic challenges.

CHINABANK

**PHP526.8bn**
TOTAL RESOURCES ↑ 11.8%

**PHP5.6bn**
NET PROFIT ↑ 9.5%

**PHP19.6bn**
GROSS OPERATING INCOME ↑ 3.8%

## CHINA BANK FAST FACTS

2015 FIGURES

**517**
NO. OF BRANCHES

**740**
ATM NETWORK

**PHP317.0bn**
GROSS CUSTOMER LOANS ↑ 6.5%

**13.5%**
CAPITAL ADEQUACY RATIO


WELCOME TO CHINABANK
Your Success is
CHINABANK
3
4

## CHINA BANKING CORPORATION

# UNWAVERING COMMITMENT TO CLIENTS' SUCCESS


China Banking Corporation (China Bank), stock symbol CHIB, marked its 95th year of successful operations in the country in 2015 - a proof of its stability, strong financial performance, and long-standing commitment to be a catalyst for wealth creation and financial success for its generations of clientele. The Bank delivered a consolidated net income of PHP5.6 billion, which translated to a return on equity (ROE) of 9.6% and return on assets (ROA) of 1.17%. Net interest income grew by 7.1% to PHP15.1 billion as a result of earnings from loans and receivables that expanded by 8.4% to PHP15.9 billion. The Bank's performance was driven by sustained growth in its core business of lending especially to the consumer and commercial segments, solid deposit growth, and lower cost of funding.

In 2015, China Bank ramped up its investments in customer-centric innovations for enhanced customer delivery and efficiency. It strengthened its organization with highly skilled and professional executives, expanded its geographical footprint and product offerings, and put in place the foundations for sustainability and growth.

China Bank continued to expand its financial portfolio by establishing its investment house subsidiary, China Bank Capital Corporation (China Bank Capital),

to provide capital raising, merger & acquisition, financial restructuring, debt and securities underwriting, and financial advisory services to public and private companies. It further strengthened its suite of consumer banking offerings with the launch of its credit card namely, China Bank MasterCard Prime, China Bank MasterCard Platinum, and China Bank MasterCard World. In August 2015, China Bank successfully migrated to the Finacle Core Banking Solution (FCBS), a robust and more powerful core banking system, enabling faster and more efficient bank transactions. The enhanced IT platform under the China Bank PLUS (Program to Level Up our Service) supports the Bank's expanding operations across the country, aimed at ensuring customer loyalty, excellent delivery, efficiency, innovation, and enhanced customer service.

In addition to its wide range of financial products and services, China Bank expanded its combined network to 517 branches as of end 2015. This includes 352 branches of parent bank, China Bank, and 165 combined branches of China Bank Savings (CBS) and Planters Development Bank (PDB). Complementing this branch network are convenient and secure electronic banking channels for day and night banking service such as China Bank TellerCard ATM, China Bank Online (mobile and internet banking), and China Bank TellerPhone phone banking.

In December 2015, China Bank successfully completed the merger of CBS and PDB, with the former as the surviving bank. As a result, China Bank increased its domestic footprint with improved coverage of the SME and consumer segments. With an expanded market presence in these segments, China Bank created customized products for different client segments such as teachers' loans, intensified its operations by putting up regional business centers, and strengthened relationships with emerging small and medium enterprises (SMEs).

For the 4th straight year, China Bank won the prestigious Bell Awards for Corporate Governance from the Philippine Stock Exchange (PSE), which honored publicly-listed companies and trading participants that adhere to the highest standards of corporate governance. China Bank emerged as the only bank among the top five awardees in the publicly-listed company category, and the only company to have been recognized at all Bell Awards since it was launched in 2012. China Bank was also named Asia's Outstanding Company on Corporate Governance by Corporate Governance Asia, being named the Best in Asia for two consecutive years. It was also recognized as Best Investor Relations Company in the 5th Asian Excellence Awards by Corporate Governance Asia.

The year also saw a significant milestone for China Bank as Fitch Ratings affirmed a 'BB' rating of its long-term foreign- and local-currency Issuer Default (IDR) and achieved national long-term rating '(AA-phl)'. In addition, Capital Intelligence rating agency also affirmed its credit rating on China Bank (Financial Strength BBB-) and Foreign Currency Long-Term rating at 'BBB-' and short-term foreign currency rating at 'A3'.

With unwavering commitment to the success of all its partners, China Bank's goals for 2016 and the next years remain the same: increase customer base, deepen relationships, and strive to be the best bank for its customers. As one of the largest private universal banks and one of the best-governed publicly-listed companies in the country, China Bank will continue its robust financial performance by maximizing value from network expansion, generate loans from high growth industries, energize growth of consumer loans, and diversify and expand its fee-based businesses.

# OTHER INVESTMENTS

## Belle Corporation

# BUILDING WORLD-CLASS DESTINATIONS

Belle Corporation, one of the country's premiere developer of integrated resorts and leisure properties, delivered a 64.2% increase in revenues of PHP5.2 billion in 2015 resulting in a recurring net income growth of 29.2% to PHP1.3 billion. Consolidated net income however stood at PHP1.4 billion in 2015 from PHP2.6 billion due to a one-time gain in 2014.


Growth drivers for the year included higher leasing revenues from the City of Dreams Manila property as its operating partner, Melco Crown Entertainment Limited (MCE) launched the City of Dreams in 2015; higher income from sales of premium residential properties; and increased income contributed by its listed subsidiaries – Premium Leisure Corporation (PLC) and Pacific Online Systems Corporation.

Belle's 2015 revenues from property development and related activities


contributed PHP598 million in 2015, a 26% increase from 2014. Meanwhile, the lease of City of Dreams to Melco Crown accounted for PHP2.1 billion in revenues which is a 30% increase from 2014.

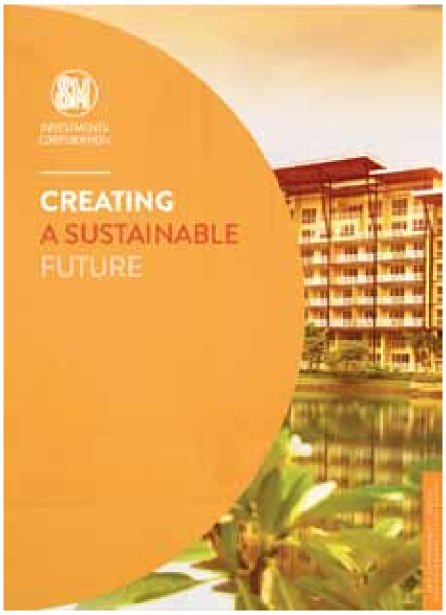
City of Dreams, which sits on a sprawling 6.2 hectare lot, is fast becoming Asia's leisure destination with its integrated gaming, entertainment and hospitality complex. It has approximately two hectares of gaming space and over 900 world-class hotel rooms from Crown, Hyatt and Nobu Hotels. It also houses the innovative and interactive DreamPlay indoor family amusement park and two hectares of dining and luxury retail space.

For its leisure property development, Belle's Nob Hill was 99% complete while Yume was 100% complete as at end 2015. Also, the initial phases of Sycamore Heights were 100% complete while the fifth phase is set to be completed by the end of 2016.

Tagaytay Highlands Country Club opened new amenities for its members' comfort and convenience such as a sporting arrow, pedal go kart, a supersized game park, oxboard maze, and an indoor wall climbing area. Tagaytay Midlands Golf Club, Inc. added a 9-hole golf course, which was fully operational in 2015. This complemented the existing 18-hole golf course in the premium mountain resort in Tagaytay City.

As part of its corporate social responsibility, Belle's KAAGAPAY Program implemented numerous activities in 2015 that benefited thousands of beneficiaries for its efforts in health care, environment, social services and education in its host community.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) HIGHLIGHTS




Read the full ESG Report available via www.sminvestments.com

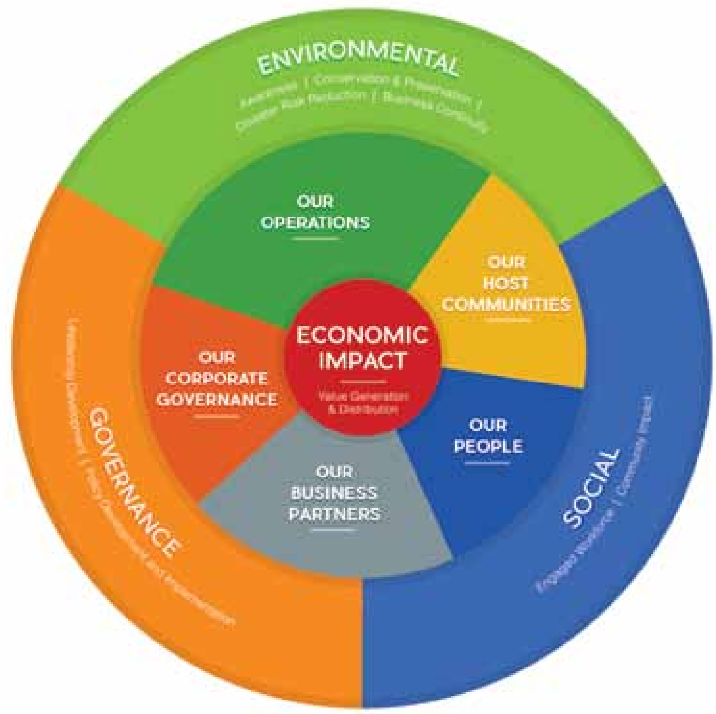

MALL OF ASIA


MILLION
TREES

## ESG HIGHLIGHTS

# CREATING A SUSTAINABLE FUTURE

SM is committed to creating a sustainable future by systematically integrating environmental, social and governance initiatives in the way it conducts its business. The Company recognizes its role in supporting economic growth, improving lives in its host communities, preserving the environment, mitigating risks and fostering the culture of good governance. By working together with its management team and its various stakeholders, SM is able to create shared value for all.




### OUR ESG PRINCIPLES

The SM Board of Directors reviewed and approved the SM ESG Principles that encompass global standards. The Company supports:

1. Corporate Governance;
2. Climate-friendly solutions and opportunities for business;
3. Access to clean, renewable and reliable energy sources and services;
4. The adoption of instruments that help quantify, manage and report on the carbon footprints of its businesses;
5. The responsibility to protect the dignity of every person and uphold human rights;
6. The recognition of the role of women in achieving economic growth and poverty reduction; and
7. The elimination of all forms of forced and compulsory labor and child labor.

### OUR ESG FRAMEWORK

The ESG Framework illustrates how SM systematically integrates environmental, social and governance initiatives in its business operations. It provides the SM group a focused approach to ESG and serves as an overview of the aspects vital to the Company's sustainability programs such as developing sustainable operating models, creating opportunities for social development in its host communities, observing the practice of good governance, engaging its business partners toward sustainability and harnessing its capital with real and measurable results. The Company's ESG initiatives are guided by the principles of the United Nations Global Compact and the United Nations Sustainable Development Goals 2030.

# SUSTAINABLE OPERATIONS

As a testament to the Company's commitment to environmental sustainability, the SM group of companies developed numerous programs in three areas: environmental awareness, conservation and preservation, and disaster risk reduction.

## AWARENESS

SM raises awareness among its host communities, tenants, suppliers and customers through various programs like the Green Retail Agenda, Green Film Festival and Earth Hour.

## CONSERVATION AND PRESERVATION

SM continuously innovates to further reduce its consumptions and carbon footprint. Among its businesses, SM Prime, specifically SM Supermalls, has taken the lead in systematically measuring its impact in energy efficiency, water management, waste management, air quality management and greenhouse gas emissions.

### ENERGY CONSUMPTION

| ENERGY CONSUMPTION WITHIN THE ORGANIZATION | | |
|---|---|---|
| CATEGORY | 2014 | 2015 |
| ELECTRICITY (MALL CONSUMPTION) | 1,926,898 | 2,132,756 |
| NON-RENEWABLE | 72,208 | 55,228 |
| DIESEL | 71,463 | 54,283 |
| GASOLINE | 745 | 945 |
| RENEWABLE | 2,413 | 293,395 |
| CNG | 2,413 | 293,395 |
| **TOTAL** (GJ) | **2,001,519** | **2,481,379** |

### WATER MANAGEMENT

In 2015, 13.1 million cubic meters of water were consumed by SM Supermalls of which 3.9 million cubic meters were treated and recycled equivalent to the amount of water required to sustain 42,500 people in a year.*

| WATER CONSUMPTION BY SOURCE | | | | |
|---|---|---|---|---|
| SOURCE | 2014 | % | 2015 | % |
| WATER PROVIDER | 10,708,583 | 91% | 11,590,270 | 88% |
| DEEP WELL | 889,213 | 8% | 871, 056 | 7% |
| WATER HAULER | 122,752 | 1% | 673,520 | 5% |
| **TOTAL** ($m^3$) | **11,720,548** | **100%** | **13,134,846** | **100%** |

| WATER CONSUMPTION BY USER | | | | |
|---|---|---|---|---|
| USER | 2014 | % | 2015 | % |
| TENANT | 6,011,709 | 51% | 7,314,668 | 56% |
| MALL | 5,708,839 | 49% | 5,820,178 | 44% |
| **TOTAL** ($m^3$) | **11,720,548** | **100%** | **13,134,846** | **100%** |

### WASTE MANAGEMENT

| TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD | | |
|---|---|---|
| WASTE DESTINATION | AMOUNT | % |
| REUSED/RECYCLED | 1,652,059 | 37.6% |
| COMPOSTED | 15,789 | 0.4% |
| DEEP WELL INJECTED | 21,337 | 0.5% |
| LANDFILLED | 2,523,796 | 57.5% |
| ON-SITE STORAGE | 175,495 | 4.0% |
| **TOTAL** (kg) | **4,388,476** | **100.0%** |

### GREENHOUSE GAS EMISSIONS

| GREENHOUSE GAS EMISSIONS (SCOPE 1,2,3) | | | |
|---|---|---|---|
| SCOPE | SOURCE | 2014 | 2015 |
| 1 | DIESEL | 5,354 | 4,036 |
| | GASOLINE | 59 | 66 |
| | CNG | 771 | 58,650 |
| | REFRIGERANT | 12,956 | 19,147 |
| | WASTEWATER TREATMENT | 10,567 | 16,961 |
| 2 | MALL ELECTRICITY | 326,984 | 360,917 |
| 3 | TENANT ELECTRICITY | 372,971 | 390,515 |
| | LPG | 88,596 | 19,935 |
| **TOTAL** (tonnes $CO_{2e}$) | | **818,258** | **870,227** |

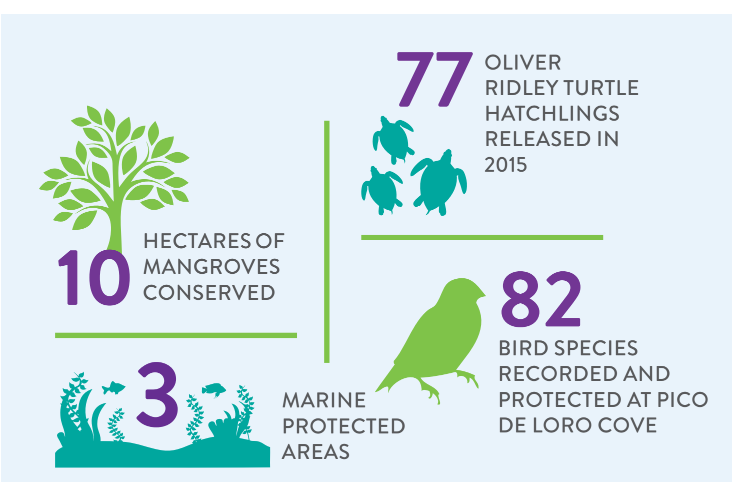
*Per capita consumption is 250 liters/day. Source: NSCB Compendium of Philippine Environment Statistics 2008.

## SUSTAINABLE TOURISM

SM also preserves life on water and land by promoting responsible and sustainable tourism in its hotel properties. Among its hotels, Radisson Blu Cebu and Pico Sands Hotel have undergone assessment by EarthCheck, a benchmarking, certification group that focuses on travel and tourism.

| RADISSON BLU CEBU | | | | |
|---|---|---|---|---|
| SCOPE | EARTHCHECK | | +/- | TRANSLATION |
| | 2014 SCORES | 2015 SCORES | | |
| ENERGY CONSUMPTION | 186.24 | 230.84 | +44.6 | EXCELLENT |
| GREENHOUSE GAS EMISSIONS (SCOPE 1 AND SCOPE 2) | 22.56 | 27.14 | +4.58 | EXCELLENT |
| POTABLE WATER CONSUMPTION | 652.05 | 701.88 | +49.83 | WELL DONE |

### HAMILO'S ENVIRONMENT PROTECTION AND CONSERVATION PROGRAM



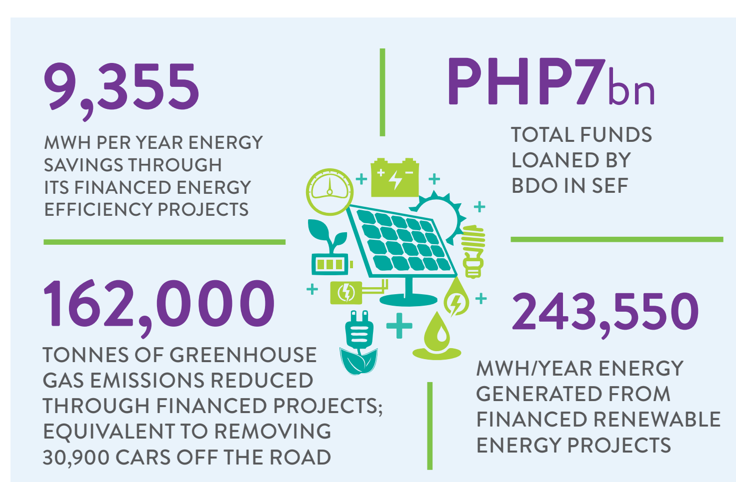

## DISASTER RISK REDUCTION

SM takes a leadership role in spearheading the UN Private Sector Alliance for Disaster Resilient Societies (ARISE) initiative in the Philippines by inviting over 100 companies to make disaster resilience part of their business models. The companies signed a commitment to help raise awareness in disaster risk reduction and implement projects.

Mr. Hans T. Sy, President of SM Prime Holdings, serves as one of the UN ARISE Board Members for 2015 – 2017. The UN ARISE is part of the United Nations Office for Disaster Risk Reduction (UNISDR), with the mission to create risk-resilient societies by energizing the private sector to collaborate in order to achieve the outcome and goals of the Sendai Framework. SM Investments Corporation and its subsidiaries signed the commitment this year during the Top Leaders Forum at the SMX Mall of Asia.

## SUSTAINABLE ENERGY FINANCE

BDO and China Bank serve as partners of the International Finance Corporation (IFC) in its Sustainable Energy Finance (SEF) Program. SEF focuses on building the Bank's Energy Efficiency and Renewable Energy portfolio by providing training to bank staff, delivering technical assessments to clients and raising market awareness initiatives to promote greener investments. Throughout its implementation, BDO gained market recognition for sustainable energy financing, particularly in financing renewable energy, specifically biomass and mini-hydro.



# IMPROVING LIVES, SUPPORTING COMMUNITIES

Wherever SM operates, it works with the community to identify their needs. After years of consultation and engagement, the group identified key areas of need that are common in all its communities.

As a demonstration of our commitment to create a cycle of positive change in its host communities, SM has moved from corporate giving and philanthropy toward sustainable development. Its social investments are targeted to education, healthcare, food security, livelihood, shelter, disaster response and rehabilitation and social inclusion for people with special needs, which are implemented by SM Foundation, SM Cares and BDO Foundation.

# SM FOUNDATION

## TOTAL IMPACT TO DATE

| | |
|---|---|
| EDUCATION | **3,660** college scholars supported<br>**467** technical-vocational scholars supported<br>**75** school buildings with **227** classrooms built<br>**24** school buildings with **58** classrooms repaired |
| HEALTH | **1,131** medical missions conducted<br>**840,313** patients benefitted in medical missions<br>**115** health centers renovated and refurbished |
| FOOD SECURITY & LIVELIHOOD | **100** KSK Farmers' Trainings conducted<br>**12,750** Farmers trained from **2,123** barangays in **551** municipalities |
| ENVIRONMENT | **536,479** sapling planted by employees, affiliates and partners |

## IMPACT IN 2015

| | |
|---|---|
| EDUCATION | **1,500** college scholars supported in **84** partner schools<br>**148** technical-vocational scholars supported<br>**8** school buildings with **32** classrooms built<br>**6** school buildings with **16** classrooms repaired |
| HEALTH | **114** medical missions conducted<br>**90,932** patients benefitted in medical missions<br>**14** health centers renovated and refurbished<br>**321,300** ml of blood collected from **714** employee-donors for the SM Employee Blood Bank |
| FOOD SECURITY & LIVELIHOOD | **20** KSK Farmers' Trainings conducted<br>**2,670** farmers trained from **337** barangays in **72** municipalities |
| RELIEF OPERATIONS | **17,100** families served through Operation Tulong Express |
| ENVIRONMENT | **99,273** saplings planted by employees, affiliates and partners |

# SM CARES

## 2015 NUMBERS

### SM CARES PROGRAM FOR WOMEN

**400,000**
NURSING MOTHERS SERVED AT BREASTFEEDING CENTERS IN THE MALLS

### SM CARES PROGRAM FOR PEOPLE WITH DISABILITIES

**31**
MALLS CONDUCTED SPECIAL CINEMA SCREENING FOR DEAF AND THE BLIND

**12,000**
JOINED ANGELS WALK FOR AUTISM

**1,500**
JOINED HAPPY WALK FOR DOWN SYNDROME AWARENESS

### SM CARES PROGRAM FOR SENIOR CITIZENS

**1,332**
SENIOR CITIZENS EMPLOYED TO DATE

**4,000**
SENIOR CITIZENS ATTENDED THE ELDERPRENEURSHIP WORKSHOP

### SM CARES PROGRAM FOR OVERSEAS FILIPINO WORKERS

**1.5M**
OFWS AND FAMILIES VISITED 38 SM GLOBAL PINOY CENTERS

**120,000**
SEAMEN RECEIVED THEIR SEAMAN'S BOOK

**260,000**
OFWS RECEIVED THEIR OVERSEAS EMPLOYMENT CERTIFICATES (OECs)

### SM CARES PROGRAM FOR CHILDREN AND YOUTH

**1,000**
PARTICIPATED IN NATIONAL SAFE KIDS MONTH

**113,000**
CHILDREN GIVEN ACCESS TO CLEAN WATER

# BDO FOUNDATION

## 2015 NUMBERS

### DISASTER RESPONSE

**61,170**
FAMILIES SERVED IN RELIEF OPERATIONS

### ACCESS TO EDUCATION, HEALTHCARE AND SHELTER

**8** HEALTH CENTERS REHABILITATED BENEFITTING **547,974** INDIVIDUALS

**469**
HOUSES BUILT FOR FAMILIES DISPLACED BY DISASTERS

**9** SCHOOL BUILDINGS CONSTRUCTED

**32** CLASSROOMS BENEFITTING **12,980** STUDENTS

### FINANCIAL INCLUSION

**US$3M**
FUNDS MANAGED FOR COMMUNITIES IN CAPIZ AND ILOILO TO SUPPORT THE POST-YOLANDA SUPPORT FOR SAFER HOMES AND SETTLEMENTS PROJECT OF UN-HABITAT

**660**
HOMES BUILT FUNDED BY THE GOVERNMENT OF JAPAN AND DSWD

### ACCESS TO LIVELIHOOD

**410**
FAMILIES WITH DISABLED MEMBERS (PWDS) PROVIDED WITH LIVELIHOOD

**4** PWD COOPERATIVES GIVEN LIVELIHOOD SUPPORT TO PRODUCE **1,400** CHAIRS AND **112** TEACHERS DESKS AND CHAIR SETS FOR BDO FOUNDATION SCHOOL BUILDING PROJECTS

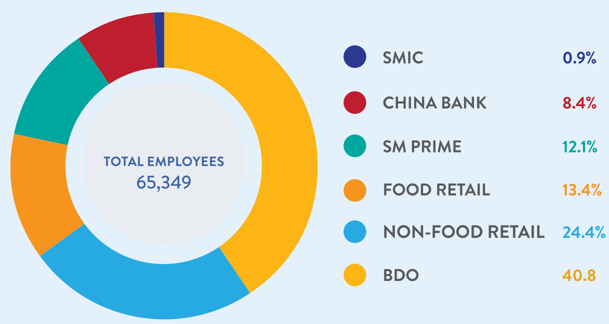
# HARNESSING HUMAN POTENTIAL

SM places high regard on the value generated by its employees. It strives to be an employer of choice that gives importance to the overall development and well-being of its people. It promotes equal opportunity and proper compensation regardless of age, gender, religion or race. SM operates all over the country with more than 50% of its employees coming from the National Capital Region, followed by Luzon, Visayas and Mindanao.

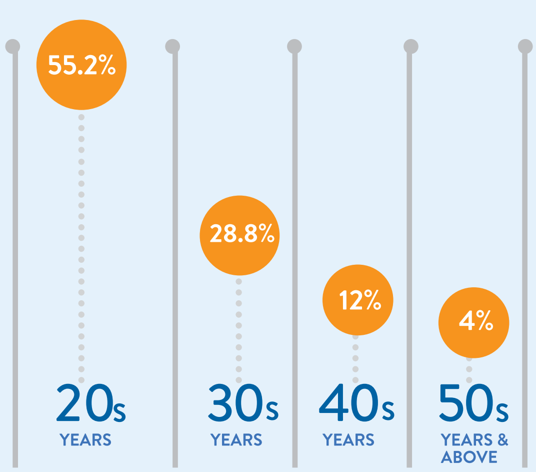
## EMPLOYEE DEVELOPMENT

SM provides numerous trainings to help employees develop multiple skill sets which allows them to have broader roles in the future. In support of a work-life balance, SM offers many opportunities to achieve total wellness such as runs, sportsfest and various community volunteer activities.

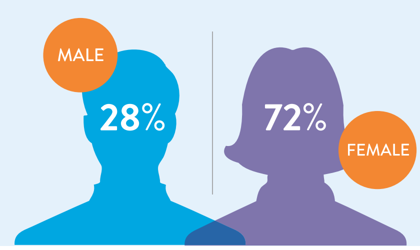
### SM GROUP-WIDE EMPLOYEE PROFILE (REGULAR AND PROBATIONARY EMPLOYEES)



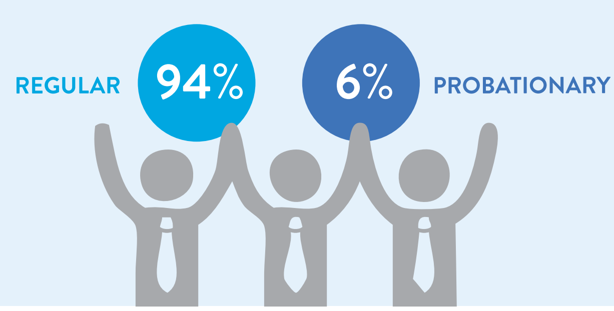

### SM GROUP-WIDE EMPLOYEE PROFILE BY AGE (REGULAR AND PROBATIONARY EMPLOYEES)




### SM GROUP-WIDE EMPLOYEE PROFILE BY GENDER (REGULAR AND PROBATIONARY EMPLOYEES)




### SM GROUP-WIDE EMPLOYEE PROFILE BY TYPE



# CORPORATE GOVERNANCE

SM Investments Corporation (SMIC) recognizes the positive impact that the practice of good corporate governance has on the long term growth and sustainability of its business. As such, the Company strives to continuously develop its corporate governance culture to keep pace with regional and global best practice.

## THE BOARD OF DIRECTORS

SMIC's Board of Directors remains fully committed to the principles of corporate governance and ensures that the long term financial success of the business is built on fairness, accountability and transparency. The Board sets the "tone at the top" and upholds the highest standard of excellence and integrity that permeates throughout the organization.

The Board is composed of eight (8) directors, three (3) of whom are non-executive independent directors. Based on SMIC's Manual on Corporate Governance, an independent director must be independent of management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. Independent directors are tasked to encourage impartial discussions at board meetings, monitor and provide feedback on Management's performance, and safeguard the interests of the Company's various stakeholders. SMIC has recently adopted a policy that limits independent directors to no more than five (5) simultaneous board seats in publicly-listed companies at any one time. Directors in violation of this policy are given a one (1) year curing period to comply.

| SM Investments Corporation's Board of Directors | | | | |
|---|---|---|---|---|
| Director's Name | Directorship | Age | Year First Elected | No. of years served as director |
| Henry Sy, Sr. | Non-Executive Director | 91 | Jan. 1960 | 56 |
| Teresita Sy-Coson | Non-Executive Director | 65 | May 1979 | 37 |
| Henry T. Sy, Jr. | Non-Executive Director | 62 | May 1979 | 37 |
| Harley T. Sy | Executive Director | 56 | May 1993 | 23 |
| Jose T. Sio | Executive Director | 76 | May 2005 | 11 |
| Vicente S. Perez, Jr. | Independent Director | 57 | May 2005 | 11 |
| Ah Doo Lim | Independent Director | 66 | April 2008 | 8 |
| Joseph R. Higdon | Independent Director | 74 | April 2010 | 6 |

Further to the roles and responsibilities found in the Company's By-Laws and Manual on Corporate Governance, the Board is also tasked to:

a. Annually review SMIC's purpose, vision and mission;
b. Oversee Management's implementation of the corporate strategy;
c. Manage the selection process and succession planning that ensures a healthy mix of competent directors and officers;
d. Ensure compliance with all relevant laws, regulations and the code of ethics;
e. Identify, assess and diligently mitigate key risk areas and adopt a robust system of internal checks and balances;
f. Periodically review SMIC's succession plan for the Board of Directors and key officers;
g. Establish and maintain an alternative dispute resolution system to settle conflicts between the Company and its stockholders or other third parties, including regulatory authorities; and
h. Protect the interest of shareholders through policies that ensure the integrity of related party transactions, and establish clear communication through an active investor relations program.

| Director's Name | Name of Listed Company | Type of Directorship |
|---|---|---|
| **Henry Sy, Sr.** | SM Prime Holdings, Inc. | Non-Executive Director (Chairman Emeritus) |
| | BDO Unibank, Inc. | Non-Executive Director (Chairman Emeritus) |
| | China Banking Corp. | Non-Executive Director (Honorary Chairman) |
| **Teresita Sy-Coson** | BDO Unibank, Inc. | Executive Director (Chairperson) |
| | BDO Leasing and Finance, Inc. | Non-Executive Director (Chairperson) |
| **Henry T. Sy, Jr.** | SM Prime Holdings, Inc. | Non-Executive Director (Chairman) |
| **Harley T. Sy** | China Banking Corp. | Non-Executive Director |
| **Jose T. Sio** | China Banking Corp. | Non-Executive Director |
| | Belle Corp. | Non-Executive Director |
| | Atlas Consolidated Mining and Development Corp. | Non-Executive Director |
| **Vicente S. Perez** | DoubleDragon Properties Corp. | Independent Director |
| **Ah Doo Lim** | ST Engineering Ltd. | Independent Director |
| | Sembcorp Marine Ltd. | Independent Director |
| | GP industries Ltd. | Independent Director |
| | Bracell Limited | Independent Director |
| | ARA-CWT Trust Management (Cache) Ltd. | Independent Director |
| **Joseph R. Higdon** | International Container Terminal Services, Inc. | Independent Director |
| | Security Bank Corp. | Independent Director |

**The Chairman of the Board and the President**

The roles of the Chairman of the Board and the President are held by separate individuals. Their respective roles and responsibilities are set in the Company's By-Laws and Manual on Corporate Governance. The Chairman's role and responsibilities include the following:

a. Lead the Board in the formulation and review of the Company's vision, mission and strategic objectives.
b. Oversee the execution of the corporate strategy and evaluate the performance of Management.
c. Assess corporate risks and ensure adequate measures are taken to mitigate them.
d. Preside at all meetings of stockholders and directors.

The responsibilities of the President include:

a. Execution of the Company's strategies and the delivery of its financial as well as non-financial goals.
b. Direct supervision of the day to day affairs of the Company.
c. Ensure the administrative and operational policies of the Company are carried out under the direction and control of the Chairman of the Board and the Board of Directors.

# CORPORATE GOVERNANCE

### Board Performance and Attendance

Regular meetings of the Board are held quarterly and scheduled during the previous year to encourage higher participation. Special meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year may be a ground for temporary disqualification in the succeeding election. Furthermore, non-executive directors meet at least once a year, without any executive directors or representatives of Management present. Board papers and other materials used during Board meetings are distributed to the relevant parties at least one (1) week before the actual meeting. The Board of Directors held five (5) meetings in 2015; on March 4, April 29, May 6, August 5, and November 4. All directors recorded 100% attendance in 2015, except for Mr. Joseph R. Higdon who was unable to attend the meeting in August.

### Board Remuneration

Members of the Board of Directors receive a per diem of PHP10,000 (PHP20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. The amount of the per diem is proposed at the Annual Stockholders' Meeting and approved by SMIC shareholders. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

### Evaluation of the Board and President

Under the guidance of the Nomination Committee, the Board is tasked to conduct an annual performance evaluation. The evaluation criteria is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and the President as provided for by SMIC's By-Laws, Manual on Corporate Governance and respective Board Committee Charters. Directors are asked to rate the performance of the collective Board, the Board Committees, themselves as directors and the Company's President.

Directors are also asked to identify areas for improvement, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings, their accessibility to management, the Corporate Secretary and Board Advisors as well as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The Board then reviews the results of the evaluation and agree on clear action plans to address the issues raised.

**Details of Continuing Education/Training of the Board of Directors**

| Director's Name | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| Teresita Sy-Coson | 11/25/15 | Mitigating Risk on Current Trends in Money Laundering | AMLC |
| Henry T. Sy, Jr. | 8/5/15 | Exclusive Annual Corporate Governance Training Program (SMIC) | Institute of Corporate Directors (ICD) |
| Harley T. Sy | 6/3/15 | Orientation Course for Corporate Governance (CBC) | Institute of Corporate Directors (ICD) |
| Jose T. Sio | 8/5/15 | Exclusive Annual Corporate Governance Training Program (SMIC) | Institute of Corporate Directors (ICD) |
| Vicente S. Perez, Jr. | 8/5/15 | Exclusive Annual Corporate Governance Training Program (SMIC) | Institute of Corporate Directors (ICD) |
| Ah Doo Lim | 8/5/15 | Exclusive Annual Corporate Governance Training Program (SMIC) | Institute of Corporate Directors (ICD) |
| Joseph R. Higdon | 4/28/15 | Orientation Course for Corporate Governance (SBC) | Institute of Corporate Directors (ICD) |

## BOARD COMMITTEES

To address specific tasks and responsibilities, the Board adopted four (4) committees, namely the Executive Committee, the Nomination Committee, the Audit and Risk Management Committee and the Compensation and Remuneration Committee. Each committee has adopted a Charter which defines its composition, roles and responsibilities based on the provisions found in the Manual on Corporate Governance. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

### The Executive Committee

The Executive Committee is composed of both executive and non-executive directors and acts on behalf of the Board during the interim periods between Board meetings. The Committee is tasked to assist the Board in overseeing the implementation of strategies, define and monitor the Company's performance improvement goals and foster the sharing and dissemination of best practices in all areas between the different business groups. The Executive Committee also defines the group-wide policies and actions, relating to sustainable development, including environment, health and safety, internal communications, internal control and risk management, innovation and research and technology and purchasing.

### The Nomination Committee

The Nomination Committee is tasked with the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. Further, in case of vacancies, the Company endeavors to use professional search firms or other external sources when searching for candidates to the Board. The Manual on Corporate Governance prescribes the following minimum qualifications to be a director of the Company:

- Own at least one (1) share of stock of the Company;
- College graduate or have sufficient experience in managing the business to substitute for such formal education;
- At least twenty-one (21) years old;
- Shall have proven to possess integrity and probity;
- Shall be diligent, hardworking and highly reputable; and
- Shall possess the ideals and values that are aligned to the Company's vision and mission statements.

In addition to the aforementioned qualifications, the Company also requires that the Nomination Committee undertake the process of identifying the quality of directors aligned with the Company's strategic direction. Likewise, the Committee ensures that those nominated to the Board have attended an orientation or training related to corporate governance provided by a regulator accredited training provider. The Committee facilitates training for Board members and key officers provided by consultants duly accredited by the Securities and Exchange Commission.

| Nomination Committee | | | | |
|---|---|---|---|---|
| Office | Name | No. of Meetings Held | No. of Meetings Attended | Length of Service in the Committee |
| Chairman (ID) | Joseph R. Higdon | 2 | 2 | 2yrs. |
| Member (ID) | Vicente S. Perez, Jr. | 2 | 2 | 2yrs. |
| Member (ID) | Ah Doo Lim* | - | - | - |

**Nomination Committee composition was changed per Board decision on March 2, 2016.*

### The Audit and Risk Management Committee*

The Audit and Risk Management Committee is composed of three (3) directors, none of which are executive directors. The Audit and Risk Management Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. The Committee is primarily responsible for the review of the financial reports, as well as the performance of the external auditor, and recommends the Board to approve on both, should they meet the Committee's requirements. Furthermore, the Committee reviews SMIC's internal control system, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks. On March 2, 2016, the Board decided to split the Committee into two (2) separate committees, specifically, the Audit Committee and the Risk Management Committee.* (Please see the Audit and Risk Management Committee Report for more information on the Committee's roles and activities.)

### The Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.

| Compensation and Remuneration Committee | | | | |
|---|---|---|---|---|
| Office | Name | No. of Meetings Held | No. of Meetings Attended | Length of Service in the Committee |
| Chairperson | Teresita Sy-Coson | 2 | 2 | 9yrs. |
| Member | Jose T. Sio | 2 | 2 | 9yrs. |
| Member (ID) | Vicente S. Perez, Jr. | 2 | 2 | 9yrs. |

## CORPORATE GOVERNANCE RELATED POLICIES

To ensure the continued development of its corporate governance related practices, SMIC periodically reviews and enhances its Manual on Corporate Governance, Code of Ethics, and other corporate governance related policies. The Company also publishes its policies through its website www.sminvestments.com.

### The Manual on Corporate Governance

The Manual on Corporate Governance contains the Company's policies on disclosure and transparency, and mandates the conduct of communication, and training programs on corporate governance. It also outlines the rights of all stakeholders, and the protection of the interests of minority stockholders.

There have been no deviations from the Manual since it was adopted. SMIC annually submits to the SEC its certification of full compliance with the Manual, certifying that the Company, its directors, officers, and employees have adopted and fully complied with all leading practices and principles of good corporate governance as provided by the Manual.

### The Code of Ethics

The strength of SMIC's corporate governance culture is drawn from its Code of Ethics. All directors, officers and employees are required to adhere to the Code in the performance of their duties and responsibilities. The Code highlights the importance of integrity in all the dealings with investors, creditors, customers, contractors, suppliers, regulators, co-employees, and the Company's other various stakeholders. It also highlights the Company's duties to its employees, shareholders and the importance of corporate social responsibility, as well as the Company's measures against discrimination and corruption.

| Other CG Related Policies | Brief Descriptions |
|---|---|
| Insider Trading Policy | Directors, officers and employees are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of any material, stock price-sensitive information. SM issues reminders of the "trading ban", before the release of financial reports or the disclosure of other material information to ensure compliance with the policy. Directors and officers are required to report their dealings in company shares within three (3) business days. |
| Related Party Transactions | SM discloses in detail the nature, extent and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE. Management regularly presents the details of transactions entered into by SM with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SM conducts all related-party transactions at an arms' length basis. |
| Conflict of Interest Policy | SM's Conflict of Interest policy defines a conflict of interest as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him from acting in the best interests of the Company. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company. |

| | |
|---|---|
| Guidelines on Acceptance of Gifts and Travel Sponsored by Business Partners (Anti-Corruption) | Based on the provisions of the Code of Ethics, SM's directors, officers and employees are prohibited from soliciting or accepting gifts in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate giveaways, tokens or promotional items of nominal value. When it is deemed improper to refuse a gift, the issue is elevated to Management for proper disposition.<br><br>In the same manner, travel sponsored by any current or prospective business partner is prohibited under the Guidelines on Travel Sponsored by Business Partners. |
| Anti-Money Laundering Guidelines | SM issued Anti Money Laundering Guidelines for its property group. The guidelines lay down rules on acceptance of payment for real property projects and stress the importance of know-your-client procedures. The guidelines are compliant with the provisions of the Anti-Money Laundering Law and its implementing rules and regulations. |
| Guidelines on Placement of Advertisements | SM issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or director, officer or employee is one of the nominees vying for the award. SM may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or director, officer or employee. |
| Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy) | SM's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any SM director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee. Furthermore, the policy invokes a "No Retaliation" section for those that have reported in good faith. |
| Policy for Vendor Selection and Purchase of Goods and Services | Existing and potential vendors and suppliers are required to conform to the Company's Code of Ethics as a pre-requisite for the accreditation process. |

## DISCLOSURE AND TRANSPARENCY

SMIC ensures that its stakeholders receive timely and accurate information on all facets of its business through the utilization of its website and disclosures. SMIC's website has a separate corporate governance section that features subsections on its policies, programs and other relevant developments. SMIC also ensures that shareholders are provided with periodic reports that include relevant information on its directors and officers and their shareholdings and dealings with the Company.

The Investor Relations Department (IR) of SMIC is the main avenue of communication between the company and its various stakeholders. The IR Department arranges regular teleconferences and site visits for investors, and conducts annual roadshows with stops in various locations throughout the world. They also participate in various investor fora locally and conduct regular briefings with analysts and members of the press.

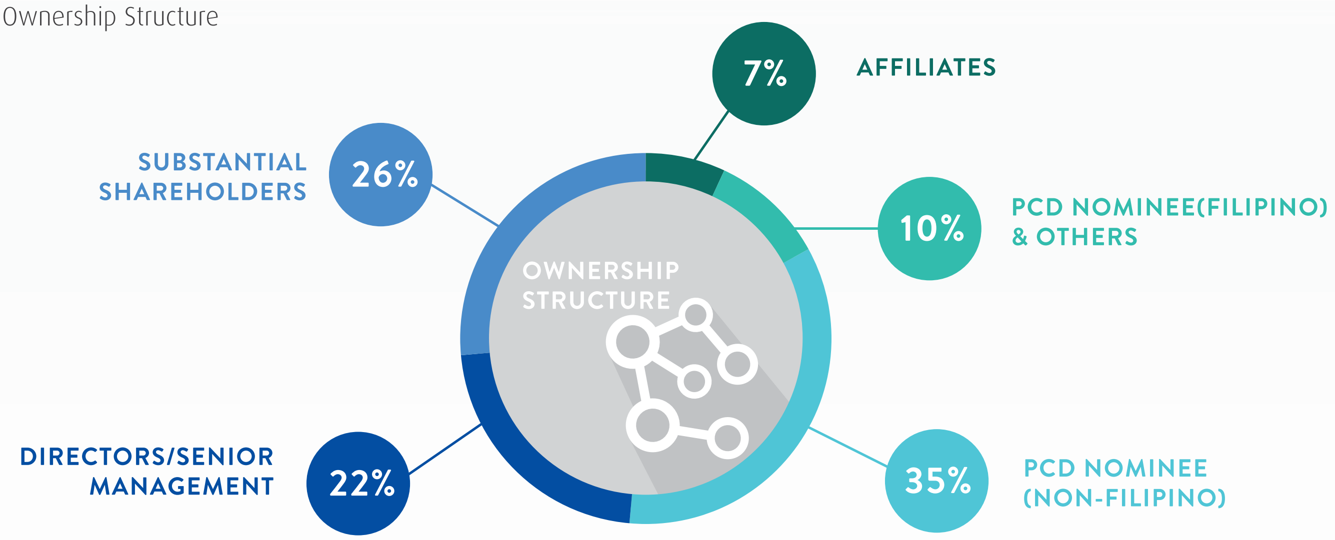
**Investor Relations Department**
10/F OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
ir@sminvestments.com

# CORPORATE GOVERNANCE

**Annual Corporate Governance Report (ACGR)**

Also included in the Company's website is SMIC's Annual Corporate Governance Report (ACGR). The ACGR highlights the Company's corporate governance practices and provides detailed information on SMIC's Board of Directors and Management and policies and programs.

Ownership Structure




SMIC regularly discloses its top shareholders and its beneficial owners who own more than 5% of its shares. Shareholdings of directors and senior management are disclosed in the Company's website and in the Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting. SMIC practices one share-one vote.

**The Annual Stockholders' Meeting**

The Annual Stockholders' Meeting (ASM) provides SMIC shareholders with the opportunity to raise concerns, give suggestions, and vote on relevant issues. Voting methods are clearly defined and explained to shareholders before the ASM to ensure the observance of their voting rights and continued participation in the voting process.

Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, shareholders may cumulatively vote for the election, removal or replacement of members of the Board of Directors. Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and key officers. Elected directors hold office for one (1) year until their successors are elected following the procedures set forth in SMIC's By-Laws. SMIC also includes rationales and explanations for each agenda item which requires shareholder approval in the Notice of the Annual Stockholders' Meeting. Furthermore, the Company appoints an independent party to count and validate votes made during the ASM.

Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. Proxy forms may also be downloaded from the Company's website. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required. Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and the corresponding responses are recorded in the minutes of the ASM, which are posted on the Company's website. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Management, the Corporate Secretary and the External Auditors are always present during the ASM.

## RIGHTS, ROLES AND PROTECTION OF STAKEHOLDERS

Based on its Manual on Corporate Governance, Code of Ethics and other relevant rules, laws and regulations, SMIC is required to recognize and protect the rights and interests of its key stakeholders, namely its shareholders, employees, customers, business partners, creditors, as well as the communities it operates in and the environment.

**Rights of Shareholders**

The Manual on Corporate Governance protects the shareholders' appraisal right as well as their rights to vote, inspect corporate books and records, gain access to material information and receive an equitable share of the Company's profits.

The exercise of a shareholder's voting right is encouraged by SMIC to ensure meaningful participation in all shareholders' meetings. Voting methods and vote counting systems employed by the Company are clearly explained to ensure the effective exercise of shareholders' right to vote. SMIC follows the system of cumulative voting for the election of directors to allow shareholders an opportunity to elect each member of the Board of Directors individually.

Shareholders have the right to receive dividends subject to the discretion of the Board. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code.

Minority shareholders are given the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice. Minority shareholders are also given access to information relating to matters for which Management is accountable.

**Dividend Policy**

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

**Employee Welfare**

SMIC strives to be an employer of choice and provides for the health, safety and welfare of its employees. Through the efforts of its Human Resources Department (HRD), the Company has established policies and programs that promote a safe and healthy work environment that caters to all cultures and creeds and encourages employee development and growth.

SMIC encourages good health and wellness through its various sports and fitness programs. Employees may use the courts and fitness facilities in the workplace and are encouraged to participate in HRD supported aerobic and dance activities. The Company also conducts orientations and learning sessions on health related matters, such as breast and cervical cancer awareness and detection; influenza and hepatitis B prevention and drug abuse awareness, to name a few. Furthermore, SMIC facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and employs the services of a 24 hour roving ambulance service.

**Emergency Preparedness Program**

As part of its Enterprise Risk Management, SMIC implements an emergency preparedness program that aims to safeguard its workforce, operations, and customers against emergencies, and natural and manmade disasters. Led by its Emergency Preparedness Committee, and in coordination with fire and security agents, the Company conducts regular safety drills throughout the SMIC workplace. These drills, along with emergency management related orientations and training are conducted to ensure a competent, composed and efficient response from SMIC's workforce in the event of an emergency.

**Orientation and Training**

Awareness and understanding of the principles of good corporate governance are essential to the continued development of SMIC's corporate governance culture. Through the Orientation for New Employees of SM (ONE SM), new employees are given an overview of SMIC's corporate governance framework, policies and its various components. A substantial portion of the orientation is devoted to the discussion of SM's core values and the Code of Ethics, and highlights the roles that each individual can play in the overall development of the corporate governance culture. Skills and Leadership development courses are also conducted regularly, covering topics such as Seven Habits of Effective People, Coaching for Performance and Work Attitude and Values Enhancement.

For issues or concerns, stakeholders may refer to:

**Mr. Reginald H. Tiu**
Asst. Vice President for Corporate Governance
10/F OneE-Com Center
Ocean Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
+63 2 8570100 local 0323
reginald.tiu@sminvestments.com


# BOARD OF DIRECTORS

1. Mr. HENRY SY, SR.
   Chairman

2. Ms. TERESITA SY-COSON
   Vice Chairperson

3. Mr. HENRY T. SY, JR.
   Vice Chairperson

4. Mr. HARLEY T. SY
   Director

5. Mr. JOSE T. SIO
   Director

6. Mr. VICENTE S. PEREZ, JR.
   Independent Director


7. Mr. AH DOO LIM
Independent Director

8. Mr. JOSEPH R. HIGDON
Independent Director

9. Ms. ELIZABETH T. SY
Adviser to the Board

10. Mr. HANS T. SY
Adviser to the Board

11. MR. HERBERT T. SY
Adviser to the Board

12. ATTY. CORAZON I. MORANDO
Adviser to the Board

13. MR. STEPHEN CUUNJIENG
Adviser to the Board

## BOARD OF DIRECTORS

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

**Henry Sy, Sr.**, is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman Emeritus of SM Prime, SM Development Corp., Highlands Prime Inc., BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with five lines of businesses - shopping malls, retail, financial services, real estate development and tourism, hotels and conventions.

**Teresita Sy-Coson,** is the Vice Chairperson of SMIC. She likewise holds board positions in various subsidiaries and affiliates of SMIC. This includes BDO Unibank, Inc. where she is currently Chairperson, and SM Prime Holdings where she acts as Adviser to the Board. She is likewise the Chairperson of SM Retail, Inc., which holds the SM Group's interests in its retail businesses. She is a graduate of Assumption College. She brings to the board her vast experience in retail merchandising, mall development and banking businesses.

**Henry T. Sy, Jr.,** is the Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. and SM Development Corporation. He is also the Vice Chairman – President of Highlands Prime, Inc. He is likewise the President of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from De La Salle University.

**Harley T. Sy**, is the President of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Vice Chairman of the Retail Group of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from De La Salle University.

**Jose T. Sio,** is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, and Atlas Consolidated Mining and Development Corporation. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. Mr. Sio was voted CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based business publications.

**Vicente S. Perez, Jr.***, is an Independent Director of SMIC. His career has ranged from international banker, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy and, Chairman of Merritt Partners. He was the youngest and longest serving Secretary of the Department of Energy. In 2001, he briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is a member of the WWF-International Board. Mr. Perez also currently serves as an independent director of Double Dragon Properties Corp. and ST Telemedia. Mr. Perez is a member of the advisory boards of Coca-Cola FEMSA Phils., Pictet Clean Energy Fund, Roxas Holdings, and the Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

**Ah Doo Lim*,** a Singaporean, is an Independent Director of SMIC. He is currently an Independent Director of ST Engineering Ltd., one of the largest companies listed on Singapore Exchange, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., GDS Holdings Limited, and U Mobile Sdn Bhd. He is also an Independent Director of Sembcorp Marine Ltd., a world leading offshore rig builder and of Bracell Limited (formerly known as Sateri Holdings Limited), a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

**Joseph R. Higdon*,** an American, is an Independent Director of SMIC. Until his retirement, he was a Senior Vice-President of Capital Research and Management Company, a United States investment company. He joined Capital Research in 1974 and worked there until 2006. He analyzed Philippine Stocks from 1989 until 2006. He was a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is also an Independent Director of International Container Terminal Services, Inc. and Security Bank Corporation. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

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

## BOARD COMMITTEES

| Audit and Risk Management Committee* | | |
|---|---|---|
| Mr. Vicente S. Perez, Jr. | Chairman | Independent Director |
| Mr. Ah Doo Lim | Member | Independent Director |
| Ms. Teresita Sy-Coson | Member | Non-Executive Director |
| Mr. Jose T. Sio | Adviser | |
| Atty. Serafin U. Salvador | Adviser | |

**On March 2, 2016, the Board agreed to create a separate Risk Management Committee.*

| Compensation and Remuneration Committee | | |
|---|---|---|
| Ms. Teresita Sy-Coson | Chairperson | Non-Executive Director |
| Mr. Jose T. Sio | Member | Executive Director |
| Mr. Vicente S. Perez, Jr. | Member | Independent Director |

| Nomination Committee | | |
|---|---|---|
| Mr. Joseph R. Higdon | Chairman | Independent Director |
| Mr. Vicente S. Perez, Jr. | Member | Independent Director |
| Mr. Ah Doo Lim | Member | Independent Director |

## EXECUTIVE OFFICERS

**Mr. Harley T. Sy**
President

**Mr. Jose T. Sio**
Executive Vice President and Chief Finance Officer

**Mr. Frederic C. DyBuncio**
Executive Vice President

**Ms. Elizabeth Anne C. Uychaco**
Senior Vice President, Corporate Services

**Mr. Franklin C. Gomez**
Senior Vice President, Finance

**Mr. Marcelo C. Fernando, Jr.**
Senior Vice President, Group Treasury

**Ms. Cecilia R. Patricio**
Senior Vice President, Corporate Tax

**Ms. Grace F. Roque**
Senior Vice President, Treasury

**Ms. Corazon P. Guidote**
Senior Vice President, Investor Relations
and Corporate Communications

**Atty. Marianne M. Guerrero**
Senior Vice President, Legal
Assistant Corporate Secretary

**Mr. Wilson H. Go**
Senior Vice President, Information Technology

**Atty. Elmer B. Serrano**
Corporate Secretary

## COMPLIANCE OFFICERS

**Atty. Elmer B. Serrano**
Compliance Officer

**Atty. Marianne M. Guerrero**
Alternate Compliance Officer

## CORPORATE INFORMATION OFFICERS

**Mr. Jose T. Sio**
Corporate Information Officer

**Mr. Franklin C. Gomez**
Alternate Corporate Information Officer

# AWARDS & CITATIONS

## SM INVESTMENTS CORPORATION

**The Asset Corporate Awards Platinum Awardee (2009-2015)**
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Investor Relations
- Social Responsibility

**Alpha Southeast Asia 5th Institutional Investor Awards**
Most Organized Investor Relations
Best Senior Management IR Support
Most Consistent Dividend Policy
Best Strategic Corporate Social Responsibility
Best CFO in the Philippines
**Jose T. Sio**

**Corporate Governance Asia 5th Asian Excellence Recognition Awards 2015**
Best CSR
Best CFO (Investor Relations )
**Jose T. Sio**
Best IR Company (Philippines)
Best IR Professional (Philippines)
**Corazon P. Guidote**
Best Environmental Responsibility
Best Corporate Communications Team

**Finance Asia Magazine**
**Ms. Teresita Sy-Coson** - cited among the Top 25 Women in Asia Pacific Finance

**Finance Asia Best Managed Companies Poll**
Best Managed Company (4th)
Best Corporate Governance (7th)

**Yazhou Zhoukan**
The Global Chinese Business 1000 Awards - Outstanding Performance

**Philippine Trust Index 2015 (EON)**
SM – One of the Most Trusted Companies in the Philippines

**BizNews Asia**
**Ms. Teresita Sy-Coson** – Visionary Management Excellence Award

**Anvil Awards**
Silver Anvil: PR Tools, Unified Annual Report 2014
Gold Anvil: PR Tools, SMIC ESG Report 2014

**Jobstreet 2015 Top Companies Report**
SM Investments Corporation - One of the Ten Most Aspired Companies in the Philippines

## SM PRIME HOLDINGS, INC.

**The Asset Corporate Awards Platinum Awardee (2010-2015)**
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Investor Relations
- Social Responsibility

**Corporate Governance Asia 5th Asian Excellence Recognition Awards 2015**
Best CEO (Investor Relations )
**Hans T. Sy**
Best CFO (Investor Relations)
**Jeffrey C. Lim**
Best CSR
Best IR Company (Philippines)
Best Environmental Responsibility

**ASEAN Corporate Governance Award**
One of the Top 50 Publicly Listed Companies in the ASEAN Region

**Euromoney Real Estate Poll**
Best Real Estate Developer (Retail) in the Philippines

**Southeast Asia Property Awards**
Highly Commended Best Developer
SM Prime Holdings, Inc.
Best Retail Architectural Design
SM Mega Fashion Hall (SM Supermalls)
Highly Commended Best Landscape Architectural Design Shell Residences (SMDC)

# AWARDS & CITATIONS

**Philippine Property Awards**
Best Developer
SM Prime Holdings, Inc.
Best Retail Development and
Best Retail Architectural Design – Mega Fashion Hall (SM Supermalls)
Best Landscape Architectural Design
Shell Residences (SMDC)
Best Affordable Condo Development (Metro Manila) Mezza II Residences (SMDC)

**Reader's Digest 17th Annual Trusted Brands Survey**
Platinum Trusted Brand Award in the Shopping Center Category (SM Supermalls)

**Mall China Golden Mall Awards**
SM City Xiamen/SM Lifestyle Center
International Professional Leader Award, **Mr. Steven Tan**

**People Asia's People of the Year Award**
**Hans T. Sy**
SM Prime Holdings, Inc. President

**City Government of Bacolod**
SM Prime Holdings, Inc. – cited as one of the Top Corporate Taxpayers

**25th SKAL International Tourism Personality Award**
**Mr. Hans T. Sy** – recipient of Integrated Tourism Enterprises Award

**Apolinario Mabini Awards**
SM Cares Program on Disability Affairs – first ever Hall of Fame Award

**Sustainable Business Awards**
Hamilo Coast - EarthCheck Bronze Certified

## SM RETAIL

**Retail Asia-Pacific Top 500 Awards 2015**
Gold Award as the Philippines' Top Retailer

**Top Tax Payer Awards**
SM Store Megamall
Top 10 Corporate Business Taxpayer
SM Store Iloilo
Top 5 Corporate Business Taxpayer
SM Store Delgado
Top 12 Corporate Business Taxpayer
SM Store Bacolod
Top 5 Corporate Business Taxpayer
SM Store San Pablo
Top 5 Business Establishment Taxpayer
SM Store Tarlac
Top 5 Taxpayer Corporation
SM Store Olongapo
2015 Most Outstanding Business Taxpayer in Olongapo City
SM Store Naga
3rd Net Income Award

**Apolinario Mabini Awards**
Disabled-Friendly Establishment of the Year (DS Category) – Bronze Award

## SM FOOD RETAIL

**Philippine Retailers Association 18th Outstanding Filipino Retailers and Shopping Centers of the Year 2015**
SM Supermarket and SM Hypermarket
Best Supermarket and Hypermarket

**Sun Star Cebu**
Best Supermarket Chain in Cebu
Savemore Market

**Department of Trade and Industry Corporate Gold Bagwis Award**
SM Hypermarket
Two SM Supermarket Stores
27 Savemore Stores

**Top Taxpayer Awards**
SM Supermarket branches – Olongapo, Pampanga, Makati, Mandurriao, Naga, Delgado, Sta Rosa, Baguio and Tanay

## BDO UNIBANK

**Alpha Southeast Asia's 9th Best Financial Institution Award 2015**
Best Bank: BDO (6 Consecutive Years)
Best Cash Management Bank
Best FX Bank for Corporate & FIs:
BDO Unibank (5 Consecutive Years)

**ASEAN Corporate Governance**
BDO Unibank - One of the winners of the TOP 50 ASEAN PLCs in Corporate Governance

**Asiamoney Summer Awards 2015**
Best Domestic Bank
Best Domestic Provider of FX Products & Services in the Philippines (as voted by corporates)
Overall Best Managed Company in the Philippines - Large Cap
Best Executive in the Philippines
**Nestor V. Tan, President & CEO, BDO Unibank**

**Asian Banking & Finance**

Wholesale Banking
Philippine Domestic Cash Management Bank of the Year
Philippine Domestic Trade Finance Bank of the Year

Retail Banking
Online Banking Initiative of the Year (Philippines)
Corporate Social Responsibility Program of the Year (Silver)

**Colloquy's 2015 Top Loyalty Marketing Initiatives**
BDO Unibank, one of the fifteen global companies recognized by Colloquy

**Corporate Governance Asia**

5th Asian Excellence Award 2014 & 12th Anniversary of Corporate Governance Asia
One of the recipients of the 5th Asian Excellence Award 2015
Best CEO - Investor Relations
**Teresita Sy-Coson, Chairman**
Best CSR
Best IR Company (Philippines)
Best CFO - Investor Relations
**Pedro M. Florescio III**
Best IR Professional (Philippines)
**Luis S. Reyes, Jr.**
Best Environmental Responsibility
Best Corporate Communications Team

11th Recognition Awards 2015 - The Best of Asia
BDO - Recipient of Corporate Governance Asia Recognition Awards for 11 consecutive years
Asian Corporate Director of the Year
**Teresita Sy-Coson, Chairperson**

**Euromoney**

Awards for Excellence 2015
Best Bank in the Philippines
(3 Consecutive Years, 2013-2014)

Real Estate Awards 2015
Best Bank for Real Estate Services, Overall (Philippines)
Best Bank for Real Estate Loan Finance, Overall (Philippines)

**FinanceAsia**

Asia's Best Companies in Asia Poll 2015
Best Managed Public Companies (7th)
Best Corporate Governance (7th)
Best Investor Relations (8th)

Country Awards 2015
Best Bank (6 consecutive years)
Best Foreign Exchange Bank

**Global Finance The World's Best Emerging Markets Banks**
Best Bank in the Philippines

**Philippine Property Awards 2015**
BDO Corporate Center Ortigas
Best Commercial Development
Best Office Development and
Best Office Architectural Design

**Southeast Asia Property Awards 2015**
BDO Corporate Center Ortigas Highly Commended Awards for Best Commercial Development and Best Office Architectural Design (South East Asia)

# AWARDS & CITATIONS

**Reader's Digest Trusted Brand 2015**
One of the Philippines Most Trusted Brands in the Bank category (2010-2015)
One of the Philippines Most Trusted Brands in the Credit Card category

**The Asset**

Triple A Treasury, Trade and Risk Management Awards 2015
Best Trade Finance Bank in the Philippines

Triple A Asset Servicing, Investor and Fund Management Awards 2015
Best Fund Administrator - Retail, Philippines-Rising Star

Benchmark Research Awards
Top Investment House in Asian G3 Bonds for 2015, Bank, (Rank 1)
Top Investment House in Asian Local Currency Bonds for 2015, Philippines, (Rank 5)

Triple A Country Awards 2015
Best Domestic Bank, Philippines (2013-2015)
Best Corporate Institutional Bank in the Philippines

Corporate Awards 2015
BDO - one of the Platinum award winners (2010-2015)

**The Asian Banker**

Transaction Banking Awards
Best Cash Management Bank in the Philippines

Excellence in Retail Financial Service Awards 2015
Best Deposit Product in the Philippines
Best Internet Banking in the Philippines

**The Banker**

Top 500 Global Brands
Top Bank in the Philippines
(ranked 207 from 258 in 2014)

Top 1000 World Bank
Top Bank in the Philippines
(ranked 255)

## CHINA BANK

**Corporate Governance Asia 5th Asian Excellence Recognition Awards 2015**
Best IR Professional (Philippines)
Best IR Company (Philippines)
**Alexander C. Escucha, SVP for Investor and Corporate Relations**

**Corporate Governance Asia 2015 Best of Asia Awards**
Outstanding Company on Corporate Governance in the Philippines
(2nd year)

**Philippine Stock Exchange**
PSE Bell Award for Good Corporate Governance (4th year)

**The Asset Magazine**
2015 Triple A Infrastructure Awards, Best Power Deal in the Philippines
Php22.22B Pagbilao Power Plant Financing Deal

**Project Finance International**
Asia Pacific's Power Deal of the Year
Php42.15B San Buenaventura Power Project Finance

## SM FOUNDATION

**Bulong Pulungan**
SM Foundation's Programs on Education – Outstanding Exemplar in the Private Sector

**Department of Health – Philippine Blood Center (DOH-PBC)**
SM Employees Blood Bank
Jose Rizal Award
(4th consecutive year)

**City Government of Tagbilaran**
SM Foundation Health and Wellness Programs – Outstanding Community Service Award for the renovation of the Tagbilaran City Health Office

# FINANCIAL STATEMENTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Calendar Year Ended December 31, 2015 and 2014**

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

| Accounts | 12 / 31 / 2015 | 12 / 31 / 2014 | % Change |
|---|---|---|---|
| **Revenue** | **₱295.9** | **₱276.6** | **7.0%** |
| Cost and Expenses | 239.0 | 224.1 | 6.6% |
| **Income from Operations** | **56.9** | **52.5** | **8.5%** |
| Other Income (Charges) | (7.2) | (6.0) | 20.4% |
| Provision for Income Tax | 9.4 | 7.6 | 23.5% |
| Minority Interest | 11.9 | 10.5 | 13.2% |
| **Net Income Attributable to Equity Holders of the Parent** | **₱28.4** | **₱28.4** | **0.2%** |

*SM Investments Corporation and Subsidiaries (the Group)* reported a *Net Income Attributable to Equity Holders of the Parent* of ₱28.4 billion and Revenues of ₱295.9 billion in 2015. This represents a 0.2% increase in *Net Income Attributable to Equity Holders of the Parent* and 7.0% growth in *Revenues*.

*Income from Operations* increased by 8.5% to ₱56.9 billion from ₱52.5 billion in 2014. *Operating Margin and Net Margin* is at 19.2% and 9.6%, respectively.

*Merchandise Sales,* which grew by 7.2% to ₱211.4 billion from ₱197.1 billion in 2014, accounts for 71.4% of total revenues in 2015. The increase is attributable to the opening of new stores in 2015 as follows:

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

The *Non-Food* and *Food Group* comprised 40% and 60%, respectively, of merchandise sales in 2015 and 2014.

As of December 31, 2015, *SM Retail* had 310 stores nationwide, namely: 53 *SM Stores*, 45 *SM Supermarkets*, 136 *Savemore* stores, 44 *SM Hypermarkets* and 32 *WalterMart* stores.

*Real Estate Sales* slightly decreased to ₱22.5 billion from ₱22.6 billion in 2014 or 0.4% due primarily to lower revenue recognized from larger projects launched in 2010 and 2011 as these were mostly completed in 2015. The bulk of revenues to be recognized for projects launched in 2013 and 2014, which enjoyed brisk sales, will begin in 2016 when actual construction begins. The actual construction of a project usually starts within 12 to 18 months from launch date and revenue is recognized based on percentage of completion.

*Real Estate Gross Margin* improved from 44.6% in 2014 to 45.7% in 2015. This is attributable to efficient management and tighter monitoring and control of construction costs.

*Rent Revenues,* derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 10.3% to ₱36.0 billion from ₱32.6 billion in 2014. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013, 2014 and 2015, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong, *SM Center Angono* and *SM City San Mateo* in Rizal province, and

*SM City Bacolod* in Negros Occidental province for a total gross floor area (GFA) addition of 728,000 square meters. Excluding the new malls and expansions, same-store rental growth is 7%. Rent from commercial operations also increased due to the opening of *SM Cyber West* and *Five E-Com Center* with an average occupancy rate of 98%. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room rates and occupancy rates.

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

*Cinema and Event Ticket Sales* and *Amusement Revenues* increased by 11.4 % to P6.4 billion from ₱5.8 billion in 2014 due to blockbuster movies shown in 2015 and increase in amusement revenues due mainly to the opening of *Sky Ranch* Pampanga.

*Equity in Net Earnings of Associate Companies and Joint Ventures* increased by 6.4% to ₱14.1 billion from ₱13.2 billion in 2014. This is attributable mainly to the 9.7% increase in net income of BDO.

*Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading - net* decreased by 111.2% to loss of ₱5.4 million in 2015 from gain of ₱48.5 million in 2014 due primarily to the gain on sale of AFS investments in 2014.

*Dividend Income* increased by 13.4% to ₱0.7 billion in 2015 from ₱0.6 billion in 2014 due to higher dividends received from certain investees.

*Management and Service Fees* remained at ₱1.4 billion in 2015 and 2014.

*Other Revenues,* which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 6.6% to ₱3.4 billion in 2015 from ₱3.2 billion in 2014.

*Operating Expenses* increased by 4.9% to ₱63.7 billion from ₱60.7 billion in 2014 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

*Other Charges (net)* increased by 20.4% to ₱7.2 billion from ₱6.0 billion in 2014. *Interest Expense* decreased by 12.1% to P10.5 billion from ₱11.9 billion in 2014 due mainly to loan payments during the year and capitalized interest taken up on new loans availed of for capital expenditure requirements. *Interest Income* increased by 4.1% to ₱3.2 billion from ₱3.0 billion in 2014 due to higher average balance of temporary investments. *Gain on Disposal of Investments and Properties - net* decreased by 101.8% to loss of P0.05 billion from gain of ₱2.9 billion in 2014 resulting mainly from the sale of the Group's 2% stake in BDO in 2014. *Loss on Fair Value Changes on Derivatives* decreased by 45.1% to ₱0.1 billion from ₱0.2 billion in 2014. This fair value change pertains mainly to the US$250.0 million convertible bonds of SMIC which was fully settled in April 2015. *Foreign Exchange Gain - net* increased by 34.5% to ₱240.8 million from ₱179.1 million in 2014. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.72 : USD1.00 in 2014 to PHP47.06 : USD1.00 in 2015.

*Provision for Income Tax* increased by 23.5% to ₱9.4 billion from ₱7.6 billion in 2014 due to increase in taxable income as well as expiration of income tax holiday incentives on a number of residential projects. The effective income tax rate is 18.8% in 2015 and 16.3% in 2014.

*Non-controlling interest* increased by 13.2% to ₱11.9 billion in 2015 from ₱10.5 billion in 2014 due to the increase in net income of certain partly-owned subsidiaries.

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

| Accounts | 12 / 31 / 2015 | 12 / 31 / 2014 | % Change |
|---|---|---|---|
| Current Assets | ₱164.3 | ₱184.0 | -10.7% |
| Noncurrent Assets | 606.8 | 527.9 | 14.9% |
| **Total Assets** | **₱771.1** | **₱711.9** | **8.3%** |
| Current Liabilities | ₱111.4 | ₱96.3 | 15.7% |
| Noncurrent Liabilities | 278.0 | 265.6 | 4.6% |
| **Total Liabilities** | **389.4** | **361.9** | **7.6%** |
| **Stockholders' Equity** | **381.7** | **350.0** | **9.1%** |
| **Total Liabilities and Stockholders' Equity** | **₱771.1** | **₱711.9** | **8.3%** |

Total *Assets* increased by 8.3% to ₱771.1 billion from ₱711.9 billion in 2014. Likewise, total *Liabilities* increased by 7.6% to ₱389.4 billion from ₱361.9 billion in 2014.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Current Assets

*Current Assets* decreased by 10.7% to ₱164.3 billion from ₱184.0 billion in 2014.

*Cash and Cash Equivalents* decreased by 22.0% to ₱53.9 billion from ₱69.1 billion in 2014 due mainly to new investments in associates, capital expenditures, and payment of dividends.

*Time Deposits and Short-term Investments* increased by 6.8% to ₱9.6 billion from ₱9.0 billion in 2014 resulting mainly from the effect of restatement due to change in foreign exchange rates.

*Investments Held for Trading and Sale* decreased by 73.7% to ₱1.1 billion from ₱4.2 billion in 2014 due mainly to available-for-sale (AFS) investments which matured during the period and the reclassification of a certain investment to Investments in associate companies and joint ventures.

*Receivables* increased by 3.6% to ₱32.1 billion from ₱31.0 billion in 2014 due mainly to the increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units and increase in *Receivable from Tenants.*

*Merchandise Inventories* increased by 9.3% to ₱16.3 billion from ₱14.9 billion in 2014. The increase is mainly attributable to the Food Group.

*Other Current Assets* decreased by 8.1% to ₱51.3 billion from ₱55.8 billion in 2014 due to the collection of receivable from sale of a portion of the Group's stake in an associate in 2014, partly offset by the increase in condominium units for sale due to completion of condominium towers *M Place @ South Triangle*, *Jazz*, *Mezza II* and *Shell Residences* and increase in *Advances and Deposits.*

Noncurrent Assets

*Noncurrent Assets* increased by 14.9% to ₱606.8 billion from ₱527.9 billion in 2014.

*AFS Investments* increased by 10.3% to ₱21.2 billion from ₱19.2 billion in 2014 due mainly to increase in market value of certain AFS investments and new AFS investments.

*Investments in Associate Companies and Joint Ventures* increased by 16.8% to ₱169.9 billion from ₱145.5 billion in 2014 due mainly to new investments plus one year *Equity in Net Earnings of Associate Companies and Joint Ventures,* net of *Dividend Income*.

*Time Deposits* increased by 11.7% to ₱53.1 billion from ₱47.6 billion in 2014. The increase pertains to the proceeds of certain AFS bonds which matured during the period and effect of restatement due to change in foreign exchange rates.

*Property and Equipment* decreased by 2.5% to ₱19.4 billion from ₱19.9 billion in 2014.

*Investment Properties* increased by 17.8% to ₱249.6 billion from ₱211.9 billion in 2014. The increase mainly represents mall-related investments in land and buildings located in Cagayan de Oro, Cavite City, and Bulacan in the Philippines and Tianjin in China and the ongoing expansions of SM Mall of Asia; landbanking; and, construction costs incurred for ongoing projects of the Commercial and Hotel groups namely, *Three E-com Center* and *Conrad Manila*.

*Land and Development* increased by 2.8% to ₱27.4 billion from ₱26.6 billion in 2014 due mainly to landbanking and construction accomplishments during the period.

*Intangibles* increased by 10.8% to ₱24.7 billion from ₱22.3 billion in 2014 due mainly to Trademarks resulting from a new acquisition.

*Deferred Tax Assets* increased by 12.0% to ₱2.6 billion from ₱2.3 billion in 2014 due mainly to NOLCO, accrued leases and unrealized foreign exchange losses.

*Other Noncurrent Assets* increased by 19.5% to ₱38.9 billion from ₱32.6 billion in 2014 due mainly to additional bonds and deposits for real estate acquisitions, increase in *Derivative Assets* and *Deferred Input Vat*, and a new long-term note.

Current Liabilities

*Current Liabilities* increased by 15.7% to ₱111.4 billion from ₱96.3 billion in 2014.

*Bank Loans* decreased by 28.6% to ₱9.9 billion from ₱13.9 billion in 2014 resulting from net payments during the period.

*Current Portion of Long-term Debt* increased by 143.6% to ₱26.0 billion from ₱10.7 billion in 2014 due mainly to reclassification of maturing debts from noncurrent to current.

*Accounts Payable and Other Current Liabilities* increased by 4.7% to ₱73.1 billion from ₱69.9 billion in 2014 mainly from higher business volume.

*Dividends Payable* remained at ₱0.3 billion in 2015 and 2014.

*Income Tax Payable* increased by 27.0% to ₱2.0 billion in 2015 from ₱1.6 billion in 2014 due mainly to higher taxable income in 2015.

Noncurrent Liabilities

*Noncurrent Liabilities* increased by 4.6% to ₱278.0 billion from ₱265.6 billion in 2014.

*Long-term Debt - Net of Current Portion* increased by 3.4% to ₱245.2 billion from ₱237.1 billion in 2014 due mainly to new loan availments and bond issuances to fund capital expenditures and for working capital requirements.

*Tenants' Deposits and Others* increased by 17.3% to ₱25.4 billion from ₱21.6 billion in 2014. The increase pertains mainly to SM Prime's customers' deposits and deferred output vat.

*Deferred Tax Liabilities* increased by 8.3% to ₱7.4 billion from ₱6.9 billion in 2014 due mainly to unrealized gross profit on sale of real estate for tax purposes.

*Noncurrent Derivative Liability* is nil in 2015 and ₱0.06 billion in 2014. All outstanding interest rate swaps matured in 2015.

Equity

Total *Equity* increased by 9.1% to ₱381.7 billion from ₱350.0 billion in 2014.

*Equity Attributable to Owners of the Parent* increased by 10.7% to ₱284.4 billion from ₱257.0 billion in 2014. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 6.2% to ₱76.4 billion from ₱72.0 billion in 2014 due to the conversion of US$ bonds to SMIC common shares (b) *Net Unrealized Gain on AFS Investments* which increased by 24.7% to ₱12.7 billion from ₱10.2 billion in 2014 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Re-measurement gain on defined benefit asset/obligation* which increased by ₱0.2 billion as a result of valuation of the Group's retirement plan, and (d) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 22.1% to ₱1.1 billion from ₱0.9 billion in 2014.

*Non-controlling Interests* increased by 4.7% to ₱97.3 billion from ₱92.9 billion in 2014 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

**Key Performance Indicators**

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

| Accounts | 12 / 31/ 2015 | 12 / 31/ 2014 |
|---|---|---|
| Current Ratio | 1.5 | 1.9 |
| Asset to Equity | 2.0 | 2.0 |
| Debt-equity Ratios: | | |
| On Gross Basis | 50 : 50 | 50 : 50 |
| On Net Basis | 36 : 64 | 34 : 66 |
| Revenue Growth | 7.0% | 9.1% |
| Net Income to Revenues | 9.6% | 10.3% |
| Net Income Growth | 0.2% | 3.5% |
| Return on Equity | 10.3% | 12.0% |
| EBITDA *(In Billions of Pesos)* | ₱68.3B | ₱63.4B |
| Interest Rate Coverage | 6.5x | 5.3x |

*Current Ratio* decreased to 1.5 from 1.9 in 2014 due mainly to 10.7% decrease in *Current Assets* coupled with a 15.7% increase in *Current Liabilities.*

Asset to equity ratio remained at 2.0 in 2015 and 2014.

Gross debt-equity ratio remained 50:50 in 2015 and 2014.

Net debt-equity ratio increased to 36:64 from 34:66 in 2014 due to higher increase in net debts of 20.8% from ₱131.2 billion to ₱158.5 billion in 2015.

Revenue growth decreased to 7.0% in 2015 from 8.9% in 2014. This is attributable mainly to higher growth of Merchandise and Real estate sales, Rental revenues, and Cinema and event ticket sales, amusement and others in 2014 compared to 2015.

Net income growth decreased to 0.2% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity decreased to 10.3% from 12.0% in 2014 due mainly to flat net income and higher equity growth in 2015.

EBITDA increased by 7.7% to P68.3 billion from ₱63.4 billion in 2014.

Interest Rate Coverage improved to 6.5x from 5.3x in 2014 due to the negative growth of interest expense.

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

| | |
|---|---|
| 1. Current Ratio | Current Assets / Current Liabilities |
| 2. Asset to Equity Ratio | Total Assets / Total Stockholders' Equity |
| 3. Debt – Equity Ratio | |
| a Gross Basis | Total Interest Bearing Debt / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt |
| b. Net Basis | Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale, long-term notes / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale, long-term notes |
| 4. Revenue Growth | Total Revenues (Current Period) / Total Revenues (Prior Period) - 1 |
| 5. Net Income to Revenue | Net Income Attributable to Equity Holders of the Parent / Total Revenues |
| 6. Net Income Growth | Net Income Attributable to Equity Holders of the Parent (Current Period) / Net Income Attributable to Equity Holders of the Parent (Prior Period) - 1 |
| 7. Return on Equity | Net Income Attributable to Equity Holders of the Parent / Average Equity Attributable to Equity Holders of the Parent |
| 8. EBITDA | Income from Operations + Depreciation & Amortization |
| 9. Interest Rate Coverage | EBITDA / Interest Expense |

**Expansion Plans / Prospects for the Future**

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

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

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

Hotels and Convention Centers
*Conrad Manila* in the Mall of Asia Complex is expected to open in the first half of 2016.

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

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

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

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

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

| | | |
|---|---|---|
| **TERESITA SY-COSON** | **HARLEY T. SY** | **JOSE T. SIO** |
| Vice Chairperson of the Board | President | Chief Financial Officer |

Signed this 29th day of February 2016.

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity and adequacy of the financial reporting process, the internal control system, the audit process, the company's risk management system, and compliance with pertinent laws, rules, and regulations. The Committee likewise oversees special investigations as may be necessary and reviews its Charter annually.

Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes. Profiles and qualifications of each individual member of the Committee are as follows:

- **Vicente S. Perez, Jr. (Chairman)**, is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy and, Chairman of Merritt Partners. He was the youngest and longest serving Secretary of the Department of Energy. In 2001, he briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez also currently serves as an independent director of Double Dragon Properties Corp. and ST Telemedia. Mr. Perez is a member of the advisory boards of Coca-Cola FEMSA Phils., Pictet Clean Energy Fund, Roxas Holdings, and the Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

- **Ah Doo Lim (Member),** a Singaporean, is an Independent Director of SMIC. He is currently a Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector, and of ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., Linc Energy Limited, and U Mobile Sdn Bhd. He is also a Director of Sateri Holdings Limited, a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

- **Teresita Sy-Coson (Member)**, is the Vice Chairperson of SMIC. She has varied experience in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

*Internal Audit*

SMIC's Internal Audit has a Charter that defines its roles and responsibilities. Under its Charter the primary purpose of Internal Audit is to provide an independent, objective, reasonable, systematic and disciplined evaluation of the Company's risk management, organization and procedural controls. The Charter requires the Internal Audit to do the following:

- Develop an annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit and Risk Management Committee for review and approval.

- Implement the approved annual audit plan, including special tasks or projects mandated by the Audit and Risk Management Committee.

- Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.

- Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit and Risk Management Committee of the results.

- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

To maintain its independence, the Internal Auditor functionally reports to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. The Internal Auditor is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Risk Management Committee and Management.

*External Audit*

The Audit and Risk Management Committee's primary responsibility is to make a well-informed recommendation regarding the appointment, re-appointment or removal of the external auditor. The external auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements. As required by SMIC's Manual on Corporate Governance, the external auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the external auditor.

*Enterprise Risk Management*

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit and Risk Management Committee. In relation to the Enterprise Risk Management Program, the Committee performed the following:

- Monitored reports related to the Policy on Accountability, Integrity and Vigilance (PAIV) which provides for the process and safeguards of elevating concerns to Management on possible violations of anyone in the Company with regard to the Code of Ethics and other Company rules and regulations;

- Established a succession plan for the committee;

- Deliberated with the Internal Auditor and SGV & Co. on the state of risk-based internal controls;

- Reviewed the initial results of financial, operations, compliance and hazard risk assessments and mitigation exercises of core business units;

- Monitored Management's SM Group-wide awareness program on risk management;

- Approved the roll-out of the Enterprise Risk Management Program utilizing the Risk Register template as instrument in documenting and monitoring risks;

- Discussed the legal and regulatory risks of pending bills in Congress, rules from regulators and bills enacted into law that have significant impact to the Company; and

- Reviewed and approved the Annual Corporate Governance Report submission, discussed areas for improvement and approved the resulting action plan.

In compliance with the Audit and Risk Management Committee Charter, the Manual on Corporate Governance and pertinent laws, rules and regulations, we confirm that:

- The Audit and Risk Management Committee is composed of three (3) members, majority of whom are independent directors, namely Mr. Ah Doo Lim and the Committee Chairman, Mr. Vicente S. Perez, Jr.;
- We met four (4) times in 2015 (on March 4, April 29, August 5, and November 4);

| Audit and Risk Management Committee | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Office** | **Members** | **3/4/15** | **4/29/15** | **8/5/15** | **11/4/15** | **Percentage** | **Length of Service in the Committee** |
| Chairman (ID) | **Vicente S. Perez, Jr.** | √ | √ | √ | √ | 100 | 9yrs. |
| Member (ID) | **Ah Doo Lim** | √ | √ | √ | √ | 100 | 2yrs. |
| Member (NED) | **Teresita Sy-Coson** | √ | √ | √ | √ | 100 | 1yr. |

- Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes;
- We have reviewed and approved the following with regard to our Independent Auditor, SGV & Co. and our Internal Auditor:
  - Their respective annual audit plans and strategic direction, scope, risk-based methods and time table;
  - The results of their examinations and action plan to address pending audit issues; and
  - The assessment of internal controls and quality financial reporting;
- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles, relevant pending tax legislation which would impact SM Investments Corporation and its subsidiaries;
- We have reviewed and approved all audit and non-audit services provided by SGV & Co., and related audit fees;
- We have reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors and found that the system is adequate and appropriate;
- We have reviewed and ensured that the Company's related party transactions are conducted at market and arms' length basis;
- We have discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standards, and we have received written disclosures and the letter from SGV & Co. as required by prevailing applicable Independence Standards and have discussed with SGV & Co., its independence;
- We have reviewed the financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2015, six month period ended June 30, 2015, and third quarter ended September 30, 2015;
- Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the consolidated audited financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2015.
- We have reviewed and discussed the performance, independence and qualifications of the Independent Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2016.

2 March 2016

**Vicente S. Perez, Jr.***
Chairman

**Ah Doo Lim***
Member

**Teresita Sy-Coson**
Member

**Atty. Elmer B. Serrano**
Corporate Secretary

*Independent Director

# INDEPENDENT AUDITORS' REPORT

**The Stockholders and the Board of Directors**
SM Investments Corporation

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

**SYCIP GORRES VELAYO & CO.**

Belinda T. Beng Hui

**Belinda T. Beng Hui**
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5321613, January 4, 2016, Makati City

February 29, 2016

# CONSOLIDATED BALANCE SHEETS

**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 7 and 29) | **₱53,910,071** | ₱69,133,381 |
| Time deposits (Notes 8 and 29) | **9,611,405** | 9,000,324 |
| Investments held for trading and sale (Notes 9 and 29) | **1,100,915** | 4,190,449 |
| Receivables (Notes 10, 29 and 30) | **32,133,508** | 31,009,820 |
| Merchandise inventories - at cost (Note 23) | **16,262,228** | 14,882,200 |
| Other current assets (Notes 11 and 29) | **51,312,145** | 55,821,423 |
| Total Current Assets | **164,330,272** | 184,037,597 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Notes 12 and 29) | **21,175,695** | 19,205,044 |
| Investments in associate companies and joint ventures (Note 13) | **169,869,391** | 145,476,174 |
| Time deposits (Notes 8 and 29) | **53,127,769** | 47,579,390 |
| Property and equipment (Note 14) | **19,399,788** | 19,903,014 |
| Investment properties (Note 15) | **249,583,502** | 211,888,427 |
| Land and development (Note 16) | **27,386,708** | 26,629,864 |
| Intangibles (Note 17) | **24,707,221** | 22,303,203 |
| Deferred tax assets (Note 27) | **2,569,800** | 2,293,944 |
| Other noncurrent assets (Notes 17 and 29) | **38,927,352** | 32,567,952 |
| Total Noncurrent Assets | **606,747,226** | 527,847,012 |
| | **₱771,077,498** | ₱711,884,609 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans (Notes 18, 22 and 29) | **₱9,923,215** | ₱13,892,641 |
| Accounts payable and other current liabilities (Notes 19 and 29) | **73,123,426** | 69,861,065 |
| Income tax payable | **2,023,824** | 1,593,060 |
| Current portion of long-term debt (Notes 20, 22, 29 and 30) | **25,994,800** | 10,669,108 |
| Dividends payable (Note 29) | **346,281** | 264,882 |
| Total Current Liabilities | **111,411,546** | 96,280,756 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 20, 22, 29 and 30) | **245,167,269** | 237,113,555 |
| Derivative liabilities (Notes 29 and 30) | **–** | 58,705 |
| Deferred tax liabilities (Note 27) | **7,434,777** | 6,867,925 |
| Tenants' deposits and others (Notes 17, 26, 28, 29 and 30) | **25,364,620** | 21,615,259 |
| Total Noncurrent Liabilities | **277,966,666** | 265,655,444 |
| Total Liabilities | **389,378,212** | 361,936,200 |
| **Equity Attributable to Owners of the Parent** | | |
| Capital stock (Note 21) | **8,030,554** | 7,963,406 |
| Additional paid-in capital (Note 21) | **76,399,625** | 71,952,082 |
| Equity adjustments from common control transactions (Note 21) | **(1,902,024)** | (1,902,933) |
| Cost of Parent common shares held by subsidiaries (Note 21) | **(25,386)** | (25,386) |
| Cumulative translation adjustment | **1,057,751** | 866,360 |
| Re-measurement gain (loss) on defined benefit asset/obligation (Note 26) | **117,738** | (126,530) |
| Net unrealized gain on available-for-sale investments (Notes 12 and 13) | **12,724,360** | 10,207,259 |
| Retained earnings (Note 21): | | |
| Appropriated | **36,000,000** | 27,000,000 |
| Unappropriated | **152,004,710** | 141,069,856 |
| Total Equity Attributable to Owners of the Parent | **284,407,328** | 257,004,114 |
| **Non-controlling Interests** | **97,291,958** | 92,944,295 |
| Total Equity | **381,699,286** | 349,948,409 |
| | **₱771,077,498** | ₱711,884,609 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands Except Per Share Data)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **REVENUE** | | | |
| Sales: | | | |
| Merchandise | **₱211,361,636** | ₱197,080,971 | ₱180,873,042 |
| Real estate | **22,529,384** | 22,629,335 | 21,242,138 |
| Rent (Notes 15, 22 and 28) | **35,969,341** | 32,605,222 | 27,628,472 |
| Equity in net earnings of associate companies and joint ventures (Note 13) | **14,070,301** | 13,225,022 | 13,602,269 |
| Cinema ticket sales, amusement and others | **6,427,592** | 5,771,529 | 4,945,795 |
| Management and service fees (Note 22) | **1,431,211** | 1,452,771 | 1,437,561 |
| Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 9 and 12) | **(5,417)** | 48,493 | 141,163 |
| Dividend income (Note 22) | **675,066** | 595,204 | 883,494 |
| Others | **3,418,577** | 3,206,768 | 2,826,111 |
| | **295,877,691** | 276,615,315 | 253,580,045 |
| **COST AND EXPENSES** | | | |
| Cost of sales: | | | |
| Merchandise (Note 23) | **163,024,285** | 150,917,587 | 138,720,368 |
| Real estate (Note 16) | **12,238,872** | 12,529,076 | 12,243,534 |
| Selling, general and administrative expenses (Note 24) | **63,707,080** | 60,710,150 | 51,186,393 |
| | **238,970,237** | 224,156,813 | 202,150,295 |
| **OTHER INCOME (CHARGES)** | | | |
| Interest expense (Notes 22 and 25) | **(10,460,636)** | (11,895,865) | (11,088,046) |
| Interest income (Notes 22 and 25) | **3,155,800** | 3,032,635 | 3,709,484 |
| Gain (loss) on disposal of investments and properties - net (Notes 13 and 15) | **(51,147)** | 2,879,746 | 546,552 |
| Loss on fair value changes on derivatives - net (Note 30) | **(103,991)** | (189,554) | (997,576) |
| Foreign exchange gain - net (Note 29) | **240,777** | 179,080 | 59,411 |
| | **(7,219,197)** | (5,993,958) | (7,770,175) |
| **INCOME BEFORE INCOME TAX** | **49,688,257** | 46,464,544 | 43,659,575 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 27) | | | |
| Current | **9,271,234** | 7,723,852 | 7,367,602 |
| Deferred | **84,136** | (149,863) | (1,947,105) |
| | **9,355,370** | 7,573,989 | 5,420,497 |
| **NET INCOME** | **₱40,332,887** | ₱38,890,555 | ₱38,239,078 |
| **Attributable to** | | | |
| Owners of the Parent (Note 31) | **₱28,455,260** | ₱28,398,584 | ₱27,445,682 |
| Non-controlling interests | **11,877,627** | 10,491,971 | 10,793,396 |
| | **₱40,332,887** | ₱38,890,555 | ₱38,239,078 |
| **Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent** (Note 31) | **₱35.68** | ₱35.66 | ₱34.85 |

*See accompanying Notes to Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **NET INCOME** | **₱40,332,887** | ₱38,890,555 | ₱38,239,078 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Items that will be reclassified to profit or loss in subsequent periods** | | | |
| Net unrealized gain on available-for-sale investments (Note 12) | **788,704** | 4,243,049 | 2,290,960 |
| Share in unrealized gain (loss) on available-for-sale investments of associates - net (Notes 12 and 13) | **(1,773,250)** | 435,121 | (2,756,754) |
| Cumulative translation adjustment | **364,928** | (720,937) | 892,452 |
| Income tax relating to items to be reclassified to profit or loss in subsequent periods | **(107,726)** | 112,849 | (2,841,627) |
| | **(727,344)** | 4,070,082 | (2,414,969) |
| **Items not to be reclassified to profit or loss in subsequent periods** | | | |
| Re-measurement gain (loss) on defined benefit obligation (Note 26) | **330,445** | 129,883 | (201,304) |
| Income tax relating to items not to be reclassified to profit or loss in subsequent periods | **(99,134)** | (38,965) | 60,391 |
| | **231,311** | 90,918 | (140,913) |
| **TOTAL COMPREHENSIVE INCOME** | **₱39,836,854** | ₱43,051,555 | ₱35,683,196 |
| **Attributable to** | | | |
| Owners of the Parent | **₱31,408,020** | ₱30,969,070 | ₱23,836,811 |
| Non-controlling interests | **8,428,834** | 12,082,485 | 11,846,385 |
| | **₱39,836,854** | ₱43,051,555 | ₱35,683,196 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(Amounts in Thousands Except Per Share Data)**

| | Equity Attributable | | | |
|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Equity Adjustments from Common Control Transactions | Cost of Parent Common Shares Held by Subsidiaries |
| Balance at December 31, 2014 | **₱7,963,406** | **₱71,952,082** | **(₱1,902,933)** | **(₱25,386)** |
| Net income | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | – | – | – | – |
| Issuance of Parent common shares (Note 21) | **67,148** | **4,833,081** | – | – |
| Reversal of appropriation (Note 21) | – | – | – | – |
| Appropriation during the year | – | – | – | – |
| Cash dividends - ₱10.61 per share (Note 21) | – | – | – | – |
| Decrease in previous year's non-controlling interests | – | – | – | – |
| Common control transactions (Note 5) | – | – | **909** | – |
| Acquisition of non-controlling interests | – | **(385,538)** | – | – |
| Cash dividends paid to non-controlling shareholders | – | – | – | – |
| Balance at December 31, 2015 | **₱8,030,554** | **₱76,399,625** | **(₱1,902,024)** | **(₱25,386)** |
| Balance at December 31, 2013 | ₱7,962,723 | ₱57,799,360 | (₱2,584,210) | (₱25,386) |
| Net income | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | – | – | – | – |
| Issuance of Parent common shares (Note 21) | 683 | 47,194 | – | – |
| Cash dividends - ₱10.34 per share (Note 21) | – | – | – | – |
| Decrease in previous year's non-controlling interests | – | – | – | – |
| Common control transactions (Note 5) | – | – | 681,277 | – |
| Re-issuance by a subsidiary of treasury shares to non-controlling shareholders (Note 21) | – | 14,105,528 | – | – |
| Cash dividends paid to non-controlling shareholders | – | – | – | – |
| Balance at December 31, 2014 | ₱7,963,406 | ₱71,952,082 | (₱1,902,933) | (₱25,386) |
| Balance at December 31, 2012 | ₱6,229,746 | ₱42,858,920 | (₱2,332,796) | (₱125,906) |
| Net income | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | – | – | – | – |
| Issuance of Parent common shares (Note 21) | 156,404 | 14,802,328 | – | – |
| Disposal of Parent common shares held by subsidiaries (Note 21) | – | 138,112 | – | 100,520 |
| Cash dividends - ₱11.80 per share (Note 21) | – | – | – | – |
| Stock dividends (Note 21) | 1,576,573 | – | – | – |
| Reversal of appropriation (Note 21) | – | – | – | – |
| Increase in previous year's non-controlling interests | – | – | – | – |
| Common control transactions (Notes 5 and 21) | – | – | (251,414) | – |
| Cash dividends paid to non-controlling shareholders | – | – | – | – |
| Balance at December 31, 2013 | ₱7,962,723 | ₱57,799,360 | (₱2,584,210) | (₱25,386) |

*See accompanying Notes to Consolidated Financial Statements.*

| to Owners of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cumulative Translation Adjustment | Net Unrealized Gain on Available-for-Sale Investments | Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation | Appropriated Retained Earnings | Unappropriated Retained Earnings | Total | Non-controlling Interests | Total Equity |
| **₱866,360** | **₱10,207,259** | **(₱126,530)** | **₱27,000,000** | **₱141,069,856** | **₱257,004,114** | **₱92,944,295** | **₱349,948,409** |
| **–** | **–** | **–** | **–** | **28,455,260** | **28,455,260** | **11,877,627** | **40,332,887** |
| **191,391** | **2,517,101** | **244,268** | **–** | **–** | **2,952,760** | **(3,448,793)** | **(496,033)** |
| **191,391** | **2,517,101** | **244,268** | **–** | **28,455,260** | **31,408,020** | **8,428,834** | **39,836,854** |
| **–** | **–** | **–** | **–** | **–** | **4,900,229** | **–** | **4,900,229** |
| **–** | **–** | **–** | **(18,000,000)** | **18,000,000** | **–** | **–** | **–** |
| **–** | **–** | **–** | **27,000,000** | **(27,000,000)** | **–** | **–** | **–** |
| **–** | **–** | **–** | **–** | **(8,520,406)** | **(8,520,406)** | **–** | **(8,520,406)** |
| **–** | **–** | **–** | **–** | **–** | **–** | **(303,245)** | **(303,245)** |
| **–** | **–** | **–** | **–** | **–** | **909** | **–** | **909** |
| **–** | **–** | **–** | **–** | **–** | **(385,538)** | **–** | **(385,538)** |
| **–** | **–** | **–** | **–** | **–** | **–** | **(3,777,926)** | **(3,777,926)** |
| **₱1,057,751** | **₱12,724,360** | **₱117,738** | **₱36,000,000** | **₱152,004,710** | **₱284,407,328** | **₱97,291,958** | **₱381,699,286** |
| ₱1,233,177 | ₱7,338,500 | (₱195,074) | ₱27,000,000 | ₱120,904,727 | ₱219,433,817 | ₱80,807,031 | ₱300,240,848 |
| – | – | – | – | 28,398,584 | 28,398,584 | 10,491,971 | 38,890,555 |
| (366,817) | 2,868,759 | 68,544 | – | – | 2,570,486 | 1,590,514 | 4,161,000 |
| (366,817) | 2,868,759 | 68,544 | – | 28,398,584 | 30,969,070 | 12,082,485 | 43,051,555 |
| – | – | – | – | – | 47,877 | – | 47,877 |
| – | – | – | – | (8,233,455) | (8,233,455) | – | (8,233,455) |
| – | – | – | – | – | – | (728,799) | (728,799) |
| – | – | – | – | – | 681,277 | – | 681,277 |
| – | – | – | – | – | 14,105,528 | 3,540,159 | 17,645,687 |
| – | – | – | – | – | – | (2,756,581) | (2,756,581) |
| ₱866,360 | ₱10,207,259 | (₱126,530) | ₱27,000,000 | ₱141,069,856 | ₱257,004,114 | ₱92,944,295 | ₱349,948,409 |
| ₱266,915 | ₱11,718,559 | ₱– | ₱35,000,000 | ₱94,458,694 | ₱188,074,132 | ₱73,570,846 | ₱261,644,978 |
| – | – | – | – | 27,445,682 | 27,445,682 | 10,793,396 | 38,239,078 |
| 966,262 | (4,380,059) | (195,074) | – | – | (3,608,871) | 1,052,989 | (2,555,882) |
| 966,262 | (4,380,059) | (195,074) | – | 27,445,682 | 23,836,811 | 11,846,385 | 35,683,196 |
| – | – | – | – | – | 14,958,732 | – | 14,958,732 |
| – | – | – | – | – | 238,632 | – | 238,632 |
| – | – | – | – | (7,423,076) | (7,423,076) | – | (7,423,076) |
| – | – | – | – | (1,576,573) | – | – | – |
| – | – | – | (8,000,000) | 8,000,000 | – | – | – |
| – | – | – | – | – | – | 1,830,497 | 1,830,497 |
| – | – | – | – | – | (251,414) | (2,083,843) | (2,335,257) |
| – | – | – | – | – | – | (4,356,854) | (4,356,854) |
| ₱1,233,177 | ₱7,338,500 | (₱195,074) | ₱27,000,000 | ₱120,904,727 | ₱219,433,817 | ₱80,807,031 | ₱300,240,848 |

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱49,688,257** | ₱46,464,544 | ₱43,659,575 |
| Adjustments for: | | | |
| Equity in net earnings of associate companies and joint ventures (Note 13) | **(14,070,301)** | (13,225,022) | (13,602,269) |
| Interest expense (Note 25) | **10,460,636** | 11,895,865 | 11,088,046 |
| Depreciation and amortization (Notes 14, 15 and 24) | **11,362,639** | 10,907,625 | 9,513,584 |
| Interest income (Note 25) | **(3,155,800)** | (3,032,635) | (3,709,484) |
| Loss (gain) on disposal of investments and properties - net (Notes 13 and 15) | **51,147** | (2,879,746) | (546,552) |
| Dividend income | **(675,066)** | (595,204) | (883,494) |
| Unrealized foreign exchange loss | **196,389** | 424,836 | 1,213,565 |
| Loss on fair value changes on derivatives - net (Note 30) | **103,991** | 189,554 | 997,576 |
| Loss (gain) on available-for-sale investments and fair value changes on investments held for trading - net (Notes 12 and 30) | **5,417** | (48,493) | (141,163) |
| Provision (reversal) of impairment loss (Notes 10, 13 and 15) | **478,869** | (288,547) | (1,018,156) |
| Income before working capital changes | **54,446,178** | 49,812,777 | 46,571,228 |
| Decrease (increase) in: | | | |
| Land and development | **(13,361,520)** | (21,724,031) | (20,763,530) |
| Other current assets | **10,995,306** | (3,599,889) | (6,220,848) |
| Merchandise inventories | **(1,380,028)** | (1,649,892) | 870,608 |
| Receivables | **1,000,248** | (513,876) | (2,268,025) |
| Increase (decrease) in: | | | |
| Accounts payable and other current liabilities | **11,252,775** | (1,112,518) | 16,109,852 |
| Tenants' deposits and others | **3,953,160** | 3,645,973 | 3,600,244 |
| Defined benefit liability (Note 26) | **191,114** | 123,467 | 126,011 |
| Net cash generated from operations | **67,097,233** | 24,982,011 | 38,025,540 |
| Income tax paid | **(8,840,875)** | (7,737,385) | (7,220,176) |
| Net cash provided by operating activities | **58,256,358** | 17,244,626 | 30,805,364 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of: | | | |
| Available-for-sale and held for trading investments | **51,350** | 2,246,972 | 1,646,038 |
| Held for trade investments | **35,000** | – | – |
| Property and equipment | **23,324** | 236,518 | 374,196 |
| Investment properties | **4,964** | 134,890 | 8,596 |
| Shares of stock of associate companies | **–** | 7,448,221 | 1,108,036 |
| Additions to: | | | |
| Investment properties (Note 15) | **(46,874,389)** | (32,791,017) | (25,885,092) |
| Investments in associate companies and joint ventures (Note 13) | **(15,546,154)** | (1,925,455) | (5,492,653) |
| Property and equipment (Note 14) | **(4,543,157)** | (4,522,820) | (5,131,795) |
| Trademarks (Note 17) | **(2,404,018)** | – | – |
| Available-for-sale and held for trading investments | **(1,242,195)** | (3,089,078) | – |
| Decrease (increase) in: | | | |
| Time deposits | **(3,264,204)** | 252,851 | 5,572,971 |
| Other noncurrent assets | **1,037,522** | 7,953,799 | 4,817,513 |
| Dividends received | **6,197,671** | 4,996,065 | 4,758,493 |
| Interest received | **3,084,147** | 3,518,976 | 3,924,505 |
| Acquisition of non-controlling interests in a subsidiary | **(442,500)** | – | – |
| Acquisition of subsidiaries, net of cash acquired (Note 5) | **–** | – | (16,750,597) |
| Net cash used in investing activities | **(63,882,639)** | (15,540,078) | (31,049,789) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of: | | | |
| Long-term debt | **32,888,435** | 84,040,740 | 66,196,550 |
| Bank loans | **19,298,894** | 10,862,833 | 60,249,390 |
| Payments of: | | | |
| Long-term debt | **(14,241,354)** | (47,795,955) | (47,783,598) |
| Bank loans | **(23,268,320)** | (24,568,200) | (70,185,745) |
| Interest | **(11,983,766)** | (12,138,889) | (11,753,597) |
| Dividends | **(12,216,934)** | (10,935,343) | (13,243,597) |
| Re-issuance by a subsidiary of treasury shares to non-controlling shareholders (Note 21) | **–** | 17,645,687 | – |
| Proceeds from issuance of new common shares (Note 21) | **–** | – | 6,424,666 |
| Disposal of Parent common shares held by subsidiaries (Note 21) | **–** | – | 100,520 |
| Net cash provided by (used in) financing activities | **(9,523,045)** | 17,110,873 | (9,995,411) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(15,149,326)** | 18,815,421 | (10,239,836) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(73,984)** | 108,303 | (265,227) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **69,133,381** | 50,209,657 | 60,714,720 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱53,910,071** | ₱69,133,381 | ₱50,209,657 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. CORPORATE INFORMATION

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on February 29, 2016.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

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

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

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

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

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

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

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

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

| | | Percentage of Ownership | | | |
|---|---|---|---|---|---|
| | | 2015 | | 2014 | |
| Company | Principal Activities | Direct | Indirect | Direct | Indirect |
| **Property** | | | | | |
| SM Prime Holdings, Inc. (SM Prime) and Subsidiaries | Real estate development | **50** | **–** | 49 | 1 |
| SM Development Corporation (SMDC) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Magenta Legacy, Inc. | Real estate development | **–** | **100** | – | 100 |
| Associated Development Corporation | Real estate development | **–** | **100** | – | 100 |
| Highlands Prime, Inc. (HPI) | Real estate development | **–** | **100** | – | 100 |
| Summerhills Home Development Corp. | Real estate development | **–** | **100** | – | 100 |
| CHAS Realty and Development Corporation (CHAS) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Costa del Hamilo, Inc. (Costa) and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Prime Metro Estate, Inc. (PMI) and Subsidiary | Real estate development | **–** | **100** | – | 100 |
| Rappel Holdings, Inc. and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| SM Arena Complex Corporation (SM Arena) | Conventions | **–** | **100** | – | 100 |
| SM Hotels and Conventions Corp. and Subsidiaries | Hotel and conventions | **–** | **100** | – | 100 |
| Tagaytay Resort Development Corporation | Real estate development | **–** | **100** | – | 100 |
| MOA Esplanade Port, Inc. | Port terminal operations | **–** | **100** | – | – |
| Mountain Bliss Resort and Development Corporation and Subsidiary | Real estate development | **100** | **–** | 100 | – |
| Intercontinental Development Corporation (ICDC) | Real estate development | **97** | **3** | 97 | 3 |
| Prime Central, Inc. and Subsidiaries | Real estate development | **100** | **–** | 100 | – |
| Bellevue Properties, Inc. | Real estate development | **62** | **–** | 62 | – |
| Net Group | Real estate development | **90** | **–** | 90 | – |
| Nagtahan Property Holdings, Inc. (formerly AD Farming) | Real estate development | **100** | **–** | 100 | – |
| **Retail** | | | | | |
| SM Retail, Inc. (SM Retail) and Subsidiaries | Retail | **100** | **–** | 100 | – |
| **Others** | | | | | |
| Primebridge Holdings, Inc. (Primebridge) | Investment | **80** | **20** | 80 | 20 |
| Asia Pacific Computer Technology Center, Inc. | Education | **52** | **–** | 52 | – |
| Multi-Realty Development Corporation (MRDC) | Investment | **91** | **–** | 91 | – |
| Henfels Investments Corp. | Investment | **99** | **–** | 99 | – |
| Belleshares Holdings, Inc. and Subsidiaries (formerly SM Commercial Properties, Inc.) | Investment | **59** | **40** | 59 | 40 |
| Sto. Roberto Marketing Corp. | Investment | **100** | **–** | 100 | – |

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

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2015 and 2014.

The summarized financial information of SM Prime follows:

*Financial Position*

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| | *(In Thousands)* | |
| Current assets | **₱97,992,191** | ₱104,016,168 |
| Noncurrent assets | **335,836,248** | 284,823,991 |
| Total assets | **433,828,439** | 388,840,159 |
| Current liabilities | **69,490,733** | 50,799,205 |
| Noncurrent liabilities | **148,494,859** | 135,802,751 |
| Total liabilities | **217,985,592** | 186,601,956 |
| Total equity | **₱215,842,847** | ₱202,238,203 |
| Attributable to: | | |
| Owners of the Parent | **₱212,488,822** | ₱199,087,690 |
| Non-controlling interests | **3,354,025** | 3,150,513 |
| | **₱215,842,847** | ₱202,238,203 |

*Statements of Income*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| | | *(In Thousands)* | |
| Revenue | **₱71,511,287** | ₱66,240,070 | ₱59,794,410 |
| Costs and expenses | **40,072,460** | 38,553,561 | 35,658,865 |
| Other income (charges) | **3,472,012** | (4,012,373) | (3,425,454) |
| Income before income tax | **34,910,839** | 23,674,136 | 20,710,091 |
| Provision for income tax | **6,018,246** | 4,777,647 | 3,984,163 |
| **Net income** | **₱28,892,593** | ₱18,896,489 | ₱16,725,928 |
| Attributable to: | | | |
| Owners of the Parent | **₱28,302,092** | ₱18,390,352 | ₱16,274,820 |
| Non-controlling interests | **590,501** | 506,137 | 451,108 |
| | **28,892,593** | 18,896,489 | 16,725,928 |
| Other comprehensive income | **(8,847,601)** | 5,083,311 | 1,441,681 |
| **Total comprehensive income** | **₱20,044,992** | ₱23,979,800 | ₱18,167,609 |
| Attributable to: | | | |
| Owners of the Parent | **₱19,454,280** | ₱23,474,512 | ₱17,717,168 |
| Non-controlling interests | **590,712** | 505,288 | 450,441 |
| **Total comprehensive income** | **₱20,044,992** | ₱23,979,800 | ₱18,167,609 |
| Dividends paid to non-controlling interests | **(₱387,200)** | (₱309,760) | (₱329,760) |

*Summarized Consolidated Statements of Cash Flows*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| | | *(In Thousands)* | |
| Net cash inflow from operating activities | **₱31,938,138** | ₱6,751,379 | ₱23,541,574 |
| Net cash outflow from investing activities | **(55,230,236)** | (29,388,619) | (30,365,993) |
| Net cash inflow from financing activities | **14,015,494** | 30,750,446 | 12,636,372 |
| Effect of exchange rate changes on cash and cash equivalents | **(98,694)** | (9,506) | 30,187 |
| Net increase in cash and cash equivalents | **(₱9,375,298)** | ₱8,103,700 | ₱5,842,140 |

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CHANGES AND IMPROVEMENTS

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

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

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

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

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

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

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

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

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

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

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

<u>Financial Instruments</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Classification of Financial Instruments between Liability and Equity*
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

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

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

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

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

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

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

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

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

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

*De-recognition of Financial Assets and Liabilities*

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

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

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

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

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

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

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

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

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

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

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

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

*Offsetting Financial Instruments*
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Intangible Assets

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

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

The cost of trademarks acquired as an asset is its acquisition cost and amortized over useful life.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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

Taxes

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

*Deferred Tax.* Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,

- for receivables and payables that are stated with the amount of tax included.

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following amendments to standards and improvements, starting January 1, 2015. The adoption did not have any significant impact on the Group's consolidated financial statements.

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*
- Annual Improvements to PFRSs 2010–2012 Cycle
  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment, and* PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures – Key Management Personnel*
- Annual Improvements to PFRSs 2011–2013 Cycle
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement – Portfolio Exception*
  - PAS 40, *Investment Property*

Future Changes in Accounting Policies
The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2015. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

*Deferred*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective may result to a change in revenue and cost recognition from percentage of completion method to completed contract method.

*Effective January 1, 2016*

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures* – Investment Entities: Applying the Consolidation Exception (Amendments)

  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint venture.

- PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statements (Amendments)

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests (Amendments)

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments)

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements; and,
  - That the share of OCI of associate and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture* - Bearer Plants (Amendments)

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

- Annual Improvements to PFRSs (2012–2014 cycle)

  The Annual Improvements to PFRSs (2012–2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

    The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

    PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

    This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

  - PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*

    This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

· PAS 34, *Interim Financial Reporting – Disclosure of Information 'elsewhere in the interim financial report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective January 1, 2018*

- PFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of International Financial Reporting Standards (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

*Standards issued by the IASB but not yet adopted locally by SEC and FRSC*

- IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- IFRS 16, *Leases*

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as at reporting date.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Revenue Recognition on Real Estate.* The Group's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing of the buyer and location of the property. The completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage.

*Property Acquisitions and Business Combinations.* The Group acquires subsidiaries which own real estate. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition, no goodwill or deferred tax is recognized.

*Consignment Arrangements on Retail Segment.* The retail segment of the Group has entered into various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, sales revenue is recognized at gross amount upon actual sales to customers. The related inventory stocks supplied under these arrangements are only payable to suppliers when actually sold.

*Operating Lease Commitments - Group as Lessor.* Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

*Operating Lease Commitments - Group as Lessee.* Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

*Assessing Significant Influence over Associates.* Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation on the board of directors, and participation in policy-making processes of the associates.

*Assessing Joint Control of an Arrangement and the Type of Arrangement.* Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

*Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value.* Management determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment and includes an evaluation of price volatility. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

*Assessing of Control or Significant Influence of Investees*

*SM Prime.* SMIC has 50% ownership interest in SMPH. Management assessed that SMIC has control of SM Prime as SMIC holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving SMIC the power to direct relevant activities of SM Prime.

*Net Group.* Management assessed that SMIC has control of these land-holding companies as the contracting parties intend to align the voting interest in the land-holding companies to reflect the economic interest in these subsidiaries. On June 27, 2014, the Board of Directors and stockholders of the land-holding companies approved the amendment of the Articles of Incorporation to reclassify all its voting preferred shares to common shares resulting in the alignment of SMIC's voting and economic interests. The amendment was approved by the SEC on various dates in 2015 (see Note 5).

In addition, SMIC has secured its interest in the land by virtue of its long-term leases on both the buildings and land (see Note 5).

*BDO Unibank, Inc. (BDO).* The Group has 44% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's voting rights are not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

*Premium Leisure Corp. (PLC).* The Group has 3% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). In 2015, Management assessed that the Group has also significant influence over PLC through its associate, Belle.

Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Revenue and Cost Recognition.* The Group's revenue from real estate and construction contracts recognized based on the POC are measured principally on the basis of the estimated completion of a physical proportion of the contract work.

*Impairment of Receivables.* The Group maintains an amount of allowance for impairment loss considered adequate to provide for potential uncollectible receivables. The allowance is evaluated on the basis of factors that affect the collectibility of the accounts including the length of the Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. See Note 10 for related balances.

*Impairment of AFS Investments - Calculation of Impairment Losses.* The computation for the impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments. See Note 12 for related balances.

*Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development.* The Group writes down merchandise inventories, condominium and residential units for sale, and land and development to net realizable value, through the use of an allowance account, whenever the net realizable value of the assets become lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 16 and 23 for related balances.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the assets are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. In 2015 and 2014, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development are higher than cost, hence, the Group did not recognize any losses on write-down.

*Estimated Useful Lives of Property and Equipment and Investment Properties.* The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 14 and 15 for related balances.

*Impairment of Investments in Associate Companies and Joint Ventures.* Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.

*Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives.* Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 17 for related balances.

*Impairment of Other Nonfinancial Assets.* The Group assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgments and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 14 and 15 for related balances.

*Purchase Price Allocation in Business Combinations.* The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names with indefinite lives. See Note 5 for related balances.

*Realizability of Deferred Tax Assets.* The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Group's deferred tax assets was recognized. See Note 27 for related balances.

*Present Value of Defined Benefit Obligation.* The present value of the pension obligations depends on a number of factors including the discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations. See Note 26 for related balances.

*Fair Value of Financial Assets and Liabilities.* The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 30 for related balances.

*Contingencies.* The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

## 5. CORPORATE RESTRUCTURING AND SIGNIFICANT ACQUISITIONS

Corporate Restructuring

In 2013, SM Prime initiated a corporate restructuring exercise to consolidate all of the Group's real estate subsidiaries and real estate assets under one single listed entity which is SM Prime (collectively, the "SM Property Group"). The overall objective is to bring to the equities market the most comprehensive and integrated Philippine property company that will engage the investor community in the long-term growth potential not just of the Philippine property sector, but also of the consumer and tourism sectors.

Following are the significant corporate restructuring transactions of the SM Property Group:

a. SM Land, Inc. (SM Land) Tender Offers for SMDC and HPI
b. Merger of SM Prime and SM Land
c. Acquisition of unlisted real estate companies and real estate assets from SMIC and the Sy Family

The impact to SMIC of the SM Property Group corporate restructuring is as follows:

*SMDC, SM Land, SM Prime and Unlisted Real Estate Companies.* The corporate restructuring resulted in changes in SMIC's ownership interest in these subsidiaries only without loss of control. The related transaction costs of ₱1,862.1 million was recorded under the "Equity adjustments from common control transactions" account in the equity section of the 2013 consolidated balance sheet.

*HPI.* The increase in ownership interest of HPI from 27% to 51% resulted in acquisition of control. HPI is ultimately controlled by the Sy Family, hence, the transaction was accounted for as a step acquisition of an associate under common control. HPI was consolidated beginning 2013. The related transaction costs of ₱38.1 million was recognized as an expense under "Selling, general and administrative expenses" account of the 2013 consolidated statement of income.

The difference of ₱1,610.7 million between the carrying value of the net assets disposed to non-controlling interests and the carrying value of the net assets acquired from non-controlling interests was recorded as part of the "Equity adjustments from common control transactions" account in the equity section of the 2013 consolidated balance sheet.

Acquisitions

Net Group. On December 2, 2013, SMIC entered into a Shareholders Agreement and Share Purchase Agreement for the acquisition of 90% ownership interest in the following companies (see Note 4):

6-24 Property Holdings, Inc.
14-678 Property Holdings, Inc.
19-1 Property Holdings, Inc.
18-2 Property Holdings, Inc.
6-3 Property Holdings, Inc.
Crescent Park 6-24 Property Holdings, Inc.
Crescent Park 14-678 Property Holdings, Inc.
Crescent Park 19-1 Property Holdings, Inc.
Crescent Park 18-2 Property Holdings, Inc.
Crescent Park 6-3 Property Holdings, Inc.

As a result of the acquisition, the Net Group became a partially-owned subsidiary of SMIC. The primary reason for acquiring the Net Group was to expand the Group's commercial development operations across major commercial business districts.

In 2014, the fair values of the identifiable assets and liabilities were finalized as follows:

| | Fair Values (As at Acquisition Date) |
|---|---|
| | *(In Thousands)* |
| Cash and cash equivalents | ₱822,890 |
| Receivables | 116,397 |
| Other current assets | 184,912 |
| Property and equipment (Note 14) | 2,936 |
| Investment properties (Note 15) | 16,761,000 |
| Total identifiable assets | 17,888,135 |
| Less: | |
| Trade payables and other current liabilities | 652,212 |
| Bank loans | 4,923,509 |
| Deferred tax liabilities | 2,323,661 |
| Total identifiable liabilities | 7,899,382 |
| Total identifiable net assets at fair value | 9,988,753 |
| Non-controlling interest measured at proportionate share of the fair value | (998,875) |
| Goodwill arising from acquisition | 3,696,369 |
| Purchase consideration | ₱12,686,247 |

The Net Group's receivables comprise mainly of lease receivables from tenants amounting to ₱116.4 million which was the carrying value as at acquisition date. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

*Waltermart Supermarket, Inc. (WSI).* In January and May 2013, SM Retail acquired a total of 193,800,000 shares of WSI equivalent to 51% ownership interest for ₱3,570.0 million. WSI is mainly engaged in the business of trading goods and merchandise. As a result of the acquisition, WSI became a partially-owned subsidiary of the Group. The primary reason for acquiring WSI was to expand the Group's market share through the pre-existing stores of WSI.

In 2014, the fair values of the identifiable assets and liabilities were finalized as follows:

| | Fair Values (As at Acquisition Date) |
|---|---|
| | *(In Thousands)* |
| Cash and cash equivalents | ₱552,991 |
| Receivables | 187,710 |
| Inventories | 700,154 |
| Property and equipment (Note 14) | 425,511 |
| Investment properties (Note 15) | 182,774 |
| Other current and noncurrent assets | 181,047 |
| Total identifiable assets | 2,230,187 |
| Less: | |
| Trade payables and other current liabilities | 1,604,293 |
| Other liabilities | 3,606 |
| Total identifiable liabilities | 1,607,899 |
| Total identifiable net assets at fair value | 622,288 |
| Non-controlling interest measured at proportionate share of the fair value | (304,921) |
| Goodwill arising from acquisition | 3,252,633 |
| Purchase consideration | ₱3,570,000 |

WSI's receivables comprise mainly of trade receivables amounting to ₱187.7 million which was the carrying value as at acquisition date. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

*CHAS.* In January 2013, SM Prime entered into a Binding Share Purchases Agreement for the acquisition of 100% interest in CHAS for a total purchase consideration of ₱1,685.0 million. CHAS is engaged in the business of shopping mall operations which owns Cabanatuan Megacenter in Nueva Ecija. SM Prime acquired CHAS to expand its market share through the pre-existing mall of CHAS.

In December 2013, SM Prime completed its acquisition of 100% interest in CHAS.

Total identifiable assets acquired amounted to ₱1,834.0 million, which mainly consist of investment properties amounting to ₱1,385.0 million and cash and other assets amounting to ₱449.0 million. Total identifiable liabilities assumed amounted to ₱149.0 million, which mainly consist of accounts payable and other current liabilities. The resulting identifiable net assets acquired amounted to ₱1,685.0 million. No goodwill is recognized upon completion of the acquisition.

The fair value of acquired receivables amounting to ₱37.0 million (included in "Receivables") approximates their carrying value. No impairment loss was provided on these receivables.

SMIC's consolidated revenue and net income would have increased by ₱80.0 million and decreased by ₱105.0 million, respectively, in 2013 had the acquisition of CHAS taken place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.

Net cash outflow from the acquisition of CHAS amounted to ₱2,238.0 million, inclusive of advances made to CHAS prior to the acquisition amounting to ₱665.0 million and net of cash acquired from CHAS amounting to ₱112.0 million.

## 6. SEGMENT INFORMATION

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

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

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

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

The BOD (Chief Operating Decision Maker) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Segment Financial Data

| | 2015 | | | | |
|---|---|---|---|---|---|
| | **Property** | **Retail** | **Financial Services and Others** | **Eliminations** | **Consolidated** |
| | | | *(In Thousands)* | | |
| Revenue: | | | | | |
| External customers | **₱67,435,872** | **₱214,595,656** | **₱13,846,163** | **₱–** | **₱295,877,691** |
| Inter-segment | **16,035,202** | **62,609** | **26,126,817** | **(42,224,628)** | **–** |
| | **₱83,471,074** | **₱214,658,265** | **₱39,972,980** | **(₱42,224,628)** | **₱295,877,691** |
| Segment results: | | | | | |
| Income before income tax | **₱36,806,850** | **₱10,244,553** | **₱20,296,619** | **(₱17,659,765)** | **₱49,688,257** |
| Provision for income tax | **(6,228,772)** | **(3,043,204)** | **(83,394)** | **–** | **(9,355,370)** |
| Net income | **₱30,578,078** | **₱7,201,349** | **₱20,213,225** | **(₱17,659,765)** | **₱40,332,887** |
| Net income attributable to: | | | | | |
| Owners of the Parent | **₱29,989,697** | **₱6,827,606** | **₱20,213,225** | **(₱28,575,268)** | **₱28,455,260** |
| Non-controlling interests | **588,381** | **373,743** | **–** | **10,915,503** | **11,877,627** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Property | Retail | Financial Services and Others | Eliminations | Consolidated |
| | | | *(In Thousands)* | | |
| Revenue: | | | | | |
| External customers | ₱62,644,074 | ₱200,028,416 | ₱13,942,825 | ₱– | ₱276,615,315 |
| Inter-segment | 7,493,808 | 75,500 | 14,327,200 | (21,896,508) | – |
| | ₱70,137,882 | ₱200,103,916 | ₱28,270,025 | (₱21,896,508) | ₱276,615,315 |
| Segment results: | | | | | |
| Income before income tax | ₱25,127,676 | ₱8,721,887 | ₱13,906,050 | (₱1,291,069) | ₱46,464,544 |
| Provision for income tax | (4,886,808) | (2,590,050) | (101,865) | 4,734 | (7,573,989) |
| Net income | ₱20,240,868 | ₱6,131,837 | ₱13,804,185 | (₱1,286,335) | ₱38,890,555 |
| Net income attributable to: | | | | | |
| Owners of the Parent | ₱19,725,253 | ₱5,858,974 | ₱13,804,185 | (₱10,989,828) | ₱28,398,584 |
| Non-controlling interests | 515,615 | 272,863 | – | 9,703,493 | 10,491,971 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Property | Retail | Financial Services and Others | Eliminations | Consolidated |
| | | | *(In Thousands)* | | |
| Revenue: | | | | | |
| External customers | ₱56,396,305 | ₱183,606,666 | ₱13,577,074 | ₱– | ₱253,580,045 |
| Inter-segment | 6,004,771 | 117,556 | 16,101,800 | (22,224,127) | – |
| | ₱62,401,076 | ₱183,724,222 | ₱29,678,874 | (₱22,224,127) | ₱253,580,045 |
| Segment results: | | | | | |
| Income before income tax | ₱23,672,023 | ₱8,551,740 | ₱12,331,124 | (₱895,312) | ₱43,659,575 |
| Provision for income tax | (3,991,614) | (2,446,033) | 289,085 | 728,065 | (5,420,497) |
| Net income | ₱19,680,409 | ₱6,105,707 | ₱12,620,209 | (₱167,247) | ₱38,239,078 |
| Net income attributable to: | | | | | |
| Owners of the Parent | ₱19,229,302 | ₱5,748,921 | ₱12,620,209 | (₱10,152,750) | ₱27,445,682 |
| Non-controlling interests | 451,107 | 356,786 | – | 9,985,503 | 10,793,396 |

## 7. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cash on hand and in banks (Note 22) | **₱9,790,556** | ₱9,428,922 |
| Temporary investments (Note 22) | **44,119,515** | 59,704,459 |
| | **₱53,910,071** | ₱69,133,381 |

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 25).

Temporary investments amounting to ₱583.9 million and ₱52.0 million as at December 31, 2015 and 2014, are used as collateral for certain loans (see Note 18).

## 8. TIME DEPOSITS

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Time deposits: | | |
| Not pledged (Note 22) | **₱62,739,174** | ₱54,622,914 |
| Pledged (Notes 20 and 22) | **–** | 1,956,800 |
| | **62,739,174** | 56,579,714 |
| Less current portion | **9,611,405** | 9,000,324 |
| Noncurrent portion | **₱53,127,769** | ₱47,579,390 |

The time deposits as at December 31, 2015 and 2014 bear annual interest ranging from 1.0% to 4.9%.

Time deposits with maturities of up to 12 months, amounting to ₱4,562.0 million and ₱2,412.0 million as at December 31, 2015 and 2014, respectively, are used as collateral for some bank credit lines.

Interest earned from time deposits is disclosed in Note 25.

## 9. INVESTMENTS HELD FOR TRADING AND SALE

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | | *(In Thousands)* |
| Investments held for trading - | | |
| Bonds | **₱279,359** | ₱307,835 |
| AFS investments (Note 12): | | |
| Bonds and corporate notes | **179,282** | 986,742 |
| Shares of stock: | | |
| Listed | **642,274** | 2,890,592 |
| Unlisted | **–** | 5,280 |
| | **821,556** | 3,882,614 |
| | **₱1,100,915** | ₱4,190,449 |

The Group recognized a loss of ₱0.7 million, gain of ₱2.1 million and a loss of ₱18.2 million from fair value adjustments of investments held for trading in 2015, 2014 and 2013, respectively. The amounts are included under "Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income.

Interest earned on investments held for trading and sale is disclosed in Note 25.

## 10. RECEIVABLES

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Trade: | | |
| Real estate buyers | **₱30,942,212** | ₱30,642,764 |
| Third-party tenants | **5,981,548** | 4,597,101 |
| Related-party tenants (Note 22) | **1,077,357** | 1,890,274 |
| Due from related parties (Note 22) | **1,350,612** | 1,194,099 |
| Management and service fees (Note 22) | **580,591** | 516,967 |
| Dividends (Note 22) | **525,668** | 875,032 |
| Total | **40,457,988** | 39,716,237 |
| Less allowance for impairment loss | **361,865** | 364,834 |
| | **40,096,123** | 39,351,403 |
| Less noncurrent portion of receivables from real estate buyers (Note 17) | **7,962,615** | 8,341,583 |
| Current portion | **₱32,133,508** | ₱31,009,820 |

The terms and conditions follow:

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units at various terms of payment.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.
- The terms and conditions relating to due from related parties are discussed in Note 22.

The movements in allowance for impairment loss follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱364,834** | ₱334,891 |
| Provision for the year (Note 24) | **5,956** | 30,200 |
| Write offs | **(8,925)** | – |
| Reversal of provision | **–** | (257) |
| Balance at end of year | **₱361,865** | ₱364,834 |

The allowance for impairment loss pertains mostly to receivables from real estate buyers and tenants.

The aging analyses of receivables follow:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired 31–90 Days | 91–120 Days | Over 120 Days | Impaired | Total |
| | | | *(In Thousands)* | | | |
| Trade: | | | | | | |
| Real estate buyers: | | | | | | |
| Current | ₱18,922,263 | ₱1,245,857 | ₱416,929 | ₱2,035,744 | ₱358,804 | ₱22,979,597 |
| Noncurrent | 7,962,615 | – | – | – | – | 7,962,615 |
| Third-party tenants | 5,971,383 | 1,354 | 5,750 | – | 3,061 | 5,981,548 |
| Related-party tenants | 1,070,557 | 1,225 | 5,575 | – | – | 1,077,357 |
| Due from related parties | 1,350,612 | – | – | – | – | 1,350,612 |
| Management and service fees | 580,591 | – | – | – | – | 580,591 |
| Dividends | 525,668 | – | – | – | – | 525,668 |
| Receivables before allowance for impairment loss | ₱36,383,689 | ₱1,248,436 | ₱428,254 | ₱2,035,744 | ₱361,865 | ₱40,457,988 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired 31–90 Days | 91–120 Days | Over 120 Days | Impaired | Total |
| | | | *(In Thousands)* | | | |
| Trade: | | | | | | |
| Real estate buyers: | | | | | | |
| Current | ₱18,299,467 | ₱1,072,161 | ₱317,632 | ₱2,259,074 | ₱352,847 | ₱22,301,181 |
| Noncurrent | 8,341,583 | – | – | – | – | 8,341,583 |
| Third-party tenants | 4,433,330 | 3,468 | 148,316 | – | 11,987 | 4,597,101 |
| Related-party tenants | 1,890,274 | – | – | – | – | 1,890,274 |
| Due from related parties | 1,194,099 | – | – | – | – | 1,194,099 |
| Management and service fees | 516,967 | – | – | – | – | 516,967 |
| Dividends | 875,032 | – | – | – | – | 875,032 |
| Receivables before allowance for impairment loss | ₱35,550,752 | ₱1,075,629 | ₱465,948 | ₱2,259,074 | ₱364,834 | ₱39,716,237 |

Receivables, other than those identified as impaired, are assessed by the Group's management as good and collectible.

## 11. OTHER CURRENT ASSETS

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Land and development (Note 16) | **₱19,814,615** | ₱19,571,526 |
| Condominium and residential units for sale (Note 16) | **8,294,523** | 7,600,260 |
| Prepaid taxes and other prepayments | **7,611,911** | 6,839,583 |
| Advances and deposits | **5,825,915** | 4,421,476 |
| Input tax | **2,951,332** | 2,995,345 |
| Non-trade receivables | **2,259,735** | 10,994,304 |
| Receivable from banks and credit cards | **1,911,701** | 1,625,671 |
| Notes receivable (Note 22) | **981,435** | – |
| Accrued interest receivable (Note 22) | **545,075** | 473,422 |
| Escrow fund (Notes 17 and 22) | **437,639** | 667,778 |
| Advances for project development | **–** | 16,467 |
| Others | **678,264** | 615,591 |
| | **₱51,312,145** | ₱55,821,423 |

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.
- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year. Interest earned from advances to third parties is disclosed as part of "Others" in Note 25.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Notes receivable pertains to the loan extended by the Parent Company to Atlas Consolidated Mining and Development Corporation (Atlas) on September 17, 2015 amounting to ₱981.4 million. The loan bears interest at 5.0%, payable quarterly, and is renewable for 90-day periods for a maximum of five years at the option of the Parent Company. Interest earned from notes receivable is disclosed as part of "Others" in Note 25.

- Accrued interest receivable relates mostly to time deposits and are normally collected within the next financial year.
- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account. Interest earned from the cash in escrow amounted to ₱24.0 million, ₱7.0 million and ₱5.0 million in 2015, 2014 and 2013, respectively, is disclosed as part of "Others" in Note 25.
- Advances for project development mostly pertain to advances for the acquisition of land for future development.

## 12. AVAILABLE-FOR-SALE INVESTMENTS

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Shares of stock: | | |
| Listed | **₱17,048,942** | ₱17,379,067 |
| Unlisted | **99,467** | 99,467 |
| Bonds and corporate notes | **4,866,562** | 5,626,784 |
| Club shares | **13,530** | 13,590 |
| | **22,028,501** | 23,118,908 |
| Less allowance for impairment loss | **31,250** | 31,250 |
| | **21,997,251** | 23,087,658 |
| Less current portion (Note 9) | **821,556** | 3,882,614 |
| Noncurrent portion | **₱21,175,695** | ₱19,205,044 |

- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.
- Investments in bonds and corporate notes as at December 31, 2015 and 2014 bear fixed interest rates ranging from 3.9% to 7.5%. These investments will mature on various dates beginning February 2015 to October 2023. The fair values of these investments as at December 31, 2015 and 2014 amounted to US$103.4 million (₱4,866.5 million) and US$125.8 million (₱5,626.8 million), respectively.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in OCI for the years ended December 31, 2015 and 2014 follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱10,207,259** | ₱7,338,500 |
| Share in net unrealized gain (loss) on AFS investments of associates (Note 13) | **(1,675,726)** | 322,170 |
| Gain due to changes in fair value of AFS investments | **4,192,860** | 2,595,964 |
| Transferred to profit or loss | **(33)** | (49,375) |
| Balance at end of year | **₱12,724,360** | ₱10,207,259 |

Gain on disposal of AFS investments recognized under "Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income amounted to ₱0.6 million, ₱46.3 million and ₱150.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. The amounts are exclusive of non-controlling interests.

Interest earned from AFS investments is disclosed in Note 25.

## 13. INVESTMENTS IN ASSOCIATE COMPANIES AND JOINT VENTURES

The movements in this account follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cost: | | |
| Balance at beginning of year | **₱95,151,355** | ₱96,600,517 |
| Additions | **15,546,154** | 1,925,455 |
| Reclassification (Note 12) | **1,719,035** | – |
| Disposals | **–** | (3,374,617) |
| Balance at end of year | **112,416,544** | 95,151,355 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **50,334,664** | 42,393,849 |
| Equity in net earnings | **14,070,301** | 13,225,022 |
| Dividends received | **(5,173,241)** | (4,509,077) |
| Accumulated equity in net earnings of investments sold | **–** | (1,210,251) |
| Balance at end of year | **59,231,724** | 49,899,543 |
| Share in net unrealized gain (loss) on AFS investments of associates | **(1,773,250)** | 435,121 |
| | **57,458,474** | 50,334,664 |
| Translation adjustment | **(5,627)** | (9,845) |
| | **₱169,869,391** | ₱145,476,174 |

There were no impairment losses for investments in associate companies and joint ventures in 2015 and 2014.

The associate companies and joint ventures of the Group follow:

| | Percentage of Ownership | | | | |
|---|---|---|---|---|---|
| | 2015 | | 2014 | | |
| **Company** | **Gross** | **Effective** | Gross | Effective | Principal Activities |
| **Associates** | | | | | |
| BDO Unibank, Inc. and Subsidiaries (BDO) | **46** | **44** | 47 | 45 | Financial services |
| China Banking Corporation and Subsidiaries (China Bank) | **23** | **20** | 22 | 20 | Financial services |
| Belle and Subsidiaries | **32** | **28** | 32 | 28 | Real estate development and tourism |
| Atlas and Subsidiaries | **29** | **29** | 29 | 29 | Mining |
| Sodexo Benefits and Rewards Services Philippines, Inc. (formerly Sodexo Motivation Solutions Philippines, Inc.) | **40** | **40** | 40 | 40 | Retail |
| Fast Retailing Philippines, Inc. | **25** | **25** | 25 | 25 | Retail |
| CityMall Commercial Centers, Inc. (CityMall) | **34** | **34** | 34 | 34 | Real estate development and tourism |
| PLC | **3** | **3** | – | – | Gaming |
| OCLP Holdings, Inc. (OHI) | **40** | **20** | – | – | Real estate development |
| Fei Hua Real Estate Company (FHREC) | **50** | **25** | 50 | 25 | Real estate development |
| **Joint Venture** | | | | | |
| Waltermart Mall | **51** | **25** | 51 | 25 | Shopping mall development |

CityMall

On February 17, 2014, SMIC signed an Investment and Shareholders Agreement for the acquisition of 34.0% ownership interest in CityMall for an initial investment of ₱0.34 million. The remaining 66.0% of the outstanding capital is held by DoubleDragon Properties Corp.

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

China Bank

In March 2014, China Bank had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every 8.834 common shares held as at record date, at an offer price of ₱49.50 per rights share. As at May 5, 2014, the Group has fully exercised its rights share and paid ₱1,804.8 million equivalent to 36.5 million China Bank shares.

In May 2015 and 2014, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock which increased the number of common shares held by the Group by 31.0 million and 28.7 million, respectively. The said shares were issued on September 9, 2015 and October 15, 2014, respectively.

Belle
On various dates in 2013, the Group sold 20.2 million Belle shares and recognized ₱10.8 million of deferred gain. The remaining balance of deferred gain as at December 31, 2015 and 2014 amounted ₱1,065.7 million.

BDO
In 2014, MRDC sold 71.6 million BDO shares for ₱7,403.7 million at ₱104.0 per share resulting to a gain on sale of ₱2,863.4 million which is included under "Gain (loss) on disposal of investments and properties - net" account in the consolidated statement of income.

SMIC's equity interest in BDO was reduced by 1% as a result of BDO's issuance of 64.5 million shares relative to its acquisition of One Network Bank on July 20, 2015.

Atlas
In 2015 and 2014 Primebridge acquired 7.4 million and 2.2 million shares of Atlas for a total consideration of ₱64.2 million and ₱25.7 million, respectively.

OHI
On May 7, 2015, SMPH acquired 39.96% collective ownership interest in OHI, through acquisition of 100% interest in six (6) holding entities, for a total consideration of ₱15,433.0 million, which approximates the proportionate share of SMPH in the fair values of the identifiable net assets of OHI. OHI owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

FHREC
The carrying value of investment in FHREC, a company incorporated in China, amounted to ₱1,109.0 million and ₱749.0 million as at December 31, 2015 and December 31, 2014, with cumulative equity in net earnings amounting to ₱832.0 million and ₱473.0 million as at December 31, 2015 and 2014, respectively.

PLC
At various dates in 2014, the Company acquired a total of 1,041.8 million shares of PLC which is equivalent to 3.29% of the outstanding common stock, at an average price of ₱1.65 a share for a total cost of ₱1,719.0 million.

The investment in PLC was classified under the "Available-for-sale investments" account in the consolidated balance sheet in 2014. In 2015, the investment in PLC was reclassified to "Investments in associate companies and joint ventures" account in the consolidated balance sheet.

WalterMart Mall
The carrying value of investment in WalterMart Mall amounted to ₱5,501.0 million and ₱5,302.0 million as at December 31, 2015 and December 31, 2014, respectively, with cumulative equity in net earnings amounting to ₱386.0 million and ₱187.0 million as at December 31, 2015 and December 31, 2014, respectively.

The condensed financial information of the Group's material associate, BDO, and the reconciliation of its net assets to the carrying amounts in the consolidated financial statements follow:

| | **2015** | 2014 |
|---|---|---|
| | *(In Millions)* | |
| Total assets | **₱2,031,254** | ₱1,863,649 |
| Total liabilities | **(1,831,641)** | (1,683,980) |
| Total equity | **199,613** | 179,669 |
| Proportion of the Group's ownership | **46%** | 47% |
| | **91,822** | 84,444 |
| Goodwill and others | **14,120** | 21,134 |
| Carrying amount of the investment | **₱105,942** | ₱105,578 |

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| | | *(In Millions)* | |
| Interest income | **₱72,127** | ₱63,583 | ₱56,606 |
| Interest expense | **(15,166)** | (12,358) | (13,440) |
| Other expenses - net | **(31,906)** | (28,397) | (20,520) |
| Net income | **₱25,055** | ₱22,828 | ₱22,646 |
| Share in net income | **₱11,553** | ₱11,002 | ₱10,676 |
| Other comprehensive income (loss) | **(₱3,830)** | ₱390 | (₱4,766) |
| Total comprehensive income | **21,225** | 23,218 | 17,880 |
| Share in comprehensive income | **₱9,867** | ₱11,122 | ₱8,381 |

The aggregate information of associates and joint ventures that are not individually material follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | | *(In Millions)* | |
| Share in net income | **₱2,517** | ₱2,223 | ₱2,926 |
| Share in other comprehensive income (loss) | **(87)** | 315 | (327) |
| Share in total comprehensive income | **₱2,430** | ₱2,538 | ₱2,599 |

As at December 31, the fair values of investments in associate companies and joint ventures which are listed in the PSE are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| BDO | **₱188,408,619** | ₱196,965,081 |
| China Bank | **15,557,433** | 18,199,904 |
| Belle | **9,720,256** | 16,334,039 |
| Atlas | **2,492,329** | 6,148,415 |
| PLC | **666,777** | 2,219,117 |

## 14. PROPERTY AND EQUIPMENT

The movements in this account follow:

| | Buildings and Improvements | Store Equipment and Improvements | Data Processing Equipment | Furniture, Fixtures and Office Equipment | Machinery and Equipment | Leasehold Improve-ments | Trans-portation Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(In Thousands)* | | | | |
| **Cost** | | | | | | | | | |
| Balance as at December 31, 2013 | ₱4,405,866 | ₱11,039,017 | ₱4,623,449 | ₱4,614,627 | ₱3,651,578 | ₱7,703,423 | ₱686,694 | ₱1,327,354 | ₱38,052,008 |
| Additions | 1,041,481 | 265,057 | 342,848 | 617,733 | 544,813 | 801,759 | 52,437 | 856,692 | 4,522,820 |
| Reclassifications | 5,714,488 | (8,595,757) | 140,156 | 627,358 | 273,524 | 3,600,135 | 19,500 | (776,085) | 1,003,319 |
| Disposals/retirements | (108,430) | (4,953) | (30,884) | (33,948) | (58,338) | (158,692) | (2,764) | (141,458) | (539,467) |
| Balance as at December 31, 2014 | 11,053,405 | 2,703,364 | 5,075,569 | 5,825,770 | 4,411,577 | 11,946,625 | 755,867 | 1,266,503 | 43,038,680 |
| Additions | 800,872 | 152,336 | 650,808 | 610,826 | 742,385 | 752,260 | 101,792 | 731,878 | 4,543,157 |
| Reclassifications | (289,467) | (867,136) | (21,409) | (414,655) | 1,016,637 | 37,516 | 8,723 | (887,056) | (1,416,847) |
| Disposals/retirements | (41,571) | (41,964) | (581,556) | (46,750) | (51,510) | (11,200) | (6,365) | (6,506) | (787,422) |
| **Balance as at December 31, 2015** | **₱11,523,239** | **₱1,946,600** | **₱5,123,412** | **₱5,975,191** | **₱6,119,089** | **₱12,725,201** | **₱860,017** | **₱1,104,819** | **₱45,377,568** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| Balance as at December 31, 2013 | ₱1,330,044 | ₱7,187,710 | ₱3,198,418 | ₱2,639,827 | ₱2,307,582 | ₱2,678,397 | ₱386,650 | ₱– | ₱19,728,628 |
| Depreciation and amortization (Note 24) | 815,286 | 570,652 | 608,958 | 664,357 | 535,333 | 1,334,214 | (239,563) | – | 4,289,237 |
| Reclassifications | 826,353 | (6,086,373) | (78,738) | 40,402 | 38,734 | 4,341,977 | 305,930 | – | (611,715) |
| Disposals/retirements | (78,543) | (3,021) | (16,759) | (27,022) | (50,086) | (92,407) | (2,646) | – | (270,484) |
| Balance as at December 31, 2014 | 2,893,140 | 1,668,968 | 3,711,879 | 3,317,564 | 2,831,563 | 8,262,181 | 450,371 | – | 23,135,666 |
| Depreciation and amortization (Note 24) | 847,044 | 214,937 | 588,416 | 569,906 | 645,372 | 1,236,659 | 68,713 | – | 4,171,047 |
| Reclassifications | (256,195) | (496,178) | (83,987) | (350,202) | 456,284 | (167,450) | 15,590 | – | (882,138) |
| Disposals/retirements | (19,623) | (41,725) | (314,281) | (21,546) | (35,086) | (9,925) | (4,609) | – | (446,795) |
| **Balance as at December 31, 2015** | **₱3,464,366** | **₱1,346,002** | **₱3,902,027** | **₱3,515,722** | **₱3,898,133** | **₱9,321,465** | **₱530,065** | **₱–** | **₱25,977,780** |
| **Net Book Value** | | | | | | | | | |
| **As at December 31, 2015** | **₱8,058,873** | **₱600,598** | **₱1,221,385** | **₱2,459,469** | **₱2,220,956** | **₱3,403,736** | **₱329,952** | **₱1,104,819** | **₱19,399,788** |
| As at December 31, 2014 | 8,160,265 | 1,034,396 | 1,363,690 | 2,508,206 | 1,580,014 | 3,684,444 | 305,496 | 1,266,503 | 19,903,014 |

As at December 31, 2015 and 2014, the Group has no idle property and equipment and the cost of fully depreciated property and equipment still in use amounted to ₱12,069.7 million and ₱11,242.2 million, respectively.

## 15. INVESTMENT PROPERTIES

The movements in this account follow:

| | Land and Improvements | Buildings and Improvements | Building Equipment, Furniture and Others | Construction in Progress | Total |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **Cost** | | | | | |
| Balance as at December 31, 2013 | ₱35,057,104 | ₱135,231,202 | ₱28,763,306 | ₱26,330,118 | ₱225,381,730 |
| Additions | 5,560,322 | 8,069,580 | 1,738,300 | 17,422,815 | 32,791,017 |
| Reclassifications | 6,057,326 | 4,054,655 | (5,291,038) | (4,789,397) | 31,546 |
| Translation adjustment | (107,095) | (299,725) | (37,595) | (155,710) | (600,125) |
| Disposals | – | (122,231) | (47,621) | – | (169,852) |
| Balance as at December 31, 2014 | 46,567,657 | 146,933,481 | 25,125,352 | 38,807,826 | 257,434,316 |
| Additions | 18,590,095 | 16,989,356 | 1,814,237 | 9,480,701 | 46,874,389 |
| Reclassifications | 335,349 | 14,738,719 | 2,229,377 | (16,059,390) | 1,244,055 |
| Translation adjustment | 64,091 | 99,036 | 12,795 | 72,742 | 248,664 |
| Disposals | (311,144) | (2,833,882) | (87,659) | (6,071) | (3,238,756) |
| **Balance as at December 31, 2015** | **₱65,246,048** | **₱175,926,710** | **₱29,094,102** | **₱32,295,808** | **₱302,562,668** |
| **Accumulated Depreciation, Amortization and Impairment Loss** | | | | | |
| Balance as at December 31, 2013 | ₱389,725 | ₱24,623,465 | ₱12,480,507 | ₱123,564 | ₱37,617,261 |
| Depreciation and amortization (Note 24) | 304,954 | 4,411,548 | 1,901,886 | – | 6,618,388 |
| Reclassifications | 1,006,644 | 930,670 | (276,046) | – | 1,661,268 |
| Translation adjustment | (9,031) | (43,422) | (15,047) | – | (67,500) |
| Reversal of impairment loss | (199,708) | – | – | – | (199,708) |
| Disposals | – | (49,968) | (33,852) | – | (83,820) |
| Balance as at December 31, 2014 | 1,492,584 | 29,872,293 | 14,057,448 | 123,564 | 45,545,889 |
| Depreciation and amortization (Note 24) | 229,824 | 4,681,811 | 2,279,957 | – | 7,191,592 |
| Reclassifications | (18,722) | 398,055 | 446,328 | – | 825,661 |
| Translation adjustment | 4,041 | 16,752 | 18,563 | – | 39,356 |
| Reversal of impairment loss | – | – | – | (123,564) | (123,564) |
| Disposals | (41,085) | (360,637) | (98,046) | – | (499,768) |
| **Balance as at December 31, 2015** | **₱1,666,642** | **₱34,608,274** | **₱16,704,250** | **₱–** | **₱52,979,166** |
| **Net Book Value** | | | | | |
| **As at December 31, 2015** | **₱63,579,406** | **₱141,318,436** | **₱12,389,852** | **₱32,295,808** | **₱249,583,502** |
| As at December 31, 2014 | 45,075,073 | 117,061,188 | 11,067,904 | 38,684,262 | 211,888,427 |

As at December 31, 2015 and 2014, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million and ₱723.6 million, respectively. Allowance for impairment loss amounting to ₱123.6 million was written off and ₱199.7 million was reversed in 2015 and 2014, respectively (see Note 24).

Portions of investment properties located in China with carrying value of ₱193.0 million and with estimated fair value of ₱2,169.0 million as at December 31, 2015, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱35,969.3 million, ₱32,605.2 million and ₱27,628.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱26,680.1 million, ₱20,249.6 million and ₱17,075.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱24,307.0 million and ₱30,870.0 million, and landbanking and commercial building constructions amounting to ₱7,658.0 million and ₱7,746.0 million as at December 31, 2015 and 2014, respectively.

In 2015, shopping mall complex under construction mainly pertains to cost of land amounting to ₱3,291 million, and costs incurred for the development of SM Trece Martires, SM San Jose Del Monte, and the ongoing expansions and renovations of SM Mall of Asia, SM City Fairview, SM City Sucat and SM Xiamen.

In 2014, shopping mall complex under construction mainly pertains to cost of land amounting to ₱6,576 million and costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱108,759.0 million and ₱81,977.0 million as at December 31, 2015 and 2014, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱31,099.0 million and ₱17,272.0 million as at December 31, 2015 and 2014, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,039.0 million, ₱51.0 million and ₱77.0 million in 2015, 2014 and 2013, respectively. Capitalization rates used range from 2.06% to 6.07% and 4.61% to 5.99% for the years ended December 31, 2015 and 2014, respectively. In 2015, foreign exchange loss amounting to ₱642.0 million were also capitalized to the construction of investment property.

The fair value of investment properties amounting to ₱572,921.2 million and ₱571,848.0 million as at December 31, 2015 and 2014, respectively, was determined by accredited independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While appraisal was not done for all investment properties as at December 31, 2015 and 2014, the Group believes that there were no conditions present in 2015 and 2014 that would significantly reduce the fair value of investment properties from that determined on the most recent valuation.

The significant assumptions used in the valuations follow:

| | |
|---|---|
| Discount rate | 10.0%–12.0% |
| Capitalization rate | 7.4%–8.5% |
| Average growth rate | 5.0% |

In conducting the appraisal, the independent appraisers used either the Sales Comparison/ Market Data Approach or the Income Approach. The Sales Comparison/ Market Data Approach is a method of comparing prices paid for comparable properties sold or offered for sale in the market against the subject property. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The fair value disclosures of the investment properties are categorized under Level 3 as these were based on unobservable inputs.

## 16. LAND AND DEVELOPMENT AND CONDOMINIUM AND RESIDENTIAL UNITS FOR SALE

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Condominium and residential units for sale (Note 11) | **₱8,294,523** | ₱7,600,260 |
| Land and development: | | |
| Current portion (Note 11) | **19,814,615** | 19,571,526 |
| Noncurrent portion | **27,386,708** | 26,629,864 |
| | **₱55,495,846** | ₱53,801,650 |

Condominium and Residential Units for Sale

Condominium and residential units for sale pertain to completed projects of SMDC, HPI, Costa and ICDC.

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱7,600,260** | ₱6,213,523 |
| Transfer from land and development | **6,149,228** | 4,153,333 |
| Recognized as costs of real estate sold | **(5,638,864)** | (2,766,596) |
| Adjustment to cost | **183,899** | – |
| Balance at end of year | **₱8,294,523** | ₱7,600,260 |

The condominium and residential units for sale are stated at cost. There is no allowance for inventory write-down as at December 31, 2015 and 2014.

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

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱46,201,390** | ₱38,209,713 |
| Development cost incurred | **11,827,278** | 14,840,948 |
| Recognized as costs of real estate sold | **(6,600,008)** | (9,579,931) |
| Transfer to condominium and residential units for sale | **(6,149,228)** | (4,153,333) |
| Land acquisition | **1,534,242** | 6,883,083 |
| Borrowing cost capitalized | **407,549** | 690,462 |
| Transfer to property and equipment and others (Notes 14 and 15) | **(19,900)** | (689,552) |
| Balance at end of year | **47,201,323** | 46,201,390 |
| Less current portion (Note 11) | **19,814,615** | 19,571,526 |
| Noncurrent portion | **₱27,386,708** | ₱26,629,864 |

The average rates used to determine the amount of borrowing cost eligible for capitalization ranged from 2.0% to 5.2% in 2015 and 3.9% to 4.9% in 2014.

SMDC
Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱23,440.0 million and ₱31,912.0 million as at December 31, 2015 and 2014, respectively.

Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas, consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱219.0 million and ₱290.0 million as at December 31, 2015 and 2014, respectively.

As at December 31, 2015 and 2014, the development of macro-infrastructure is still ongoing.

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱831.0 million and ₱1,181.0 million as at December 31, 2015 and 2014 respectively.

ICDC
Land and development costs attributable to ICDC pertain to the ongoing Susana Heights Subdivision project. Estimated cost to complete the project amounted to ₱581.3 million and ₱759.5 million as at December 31, 2015 and 2014, respectively.

Land and development are stated at cost. There is no allowance for inventory write-down as at December 31, 2015 and 2014.

## 17. INTANGIBLES AND OTHER NONCURRENT ASSETS

Intangible Assets

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Goodwill | **₱16,270,060** | ₱16,270,060 |
| Less accumulated impairment loss | **91,619** | 91,619 |
| Net book value | **16,178,441** | 16,178,441 |
| Trademarks and brand names | **8,528,780** | 6,124,762 |
| | **₱24,707,221** | ₱22,303,203 |

Goodwill is allocated to SM Prime, Supervalue, Inc. (SVI), Super Shopping Market, Inc. (SSMI), PMI, the Net Group and WSI and others as separate CGUs.

Trademarks and brand names pertain to that of:

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

b. the rights, title and interest in the trademark of Cherry Foodarama, Inc. which was accounted for as an acquisition of an asset in 2015 and assessed to have a definite useful life of 20 years.

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

*Value-in-use.* The calculations of value-in-use is most sensitive to the following assumptions:

*Revenue.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

*Pre-tax discount rates.* Discount rates reflect the current market assessment of the risks to each cash generating unit and are estimated based on the average percentage of weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 12.89% to 13.25% and 13.55% to 13.66% as at December 31, 2015 and 2014, respectively.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2015 and 2014 to materially exceed its recoverable amount.

*Fair value less cost of disposal.* The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2015 and 2014 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | (In Thousands) | |
| Deposits and advance rentals | **₱10,867,776** | ₱7,859,051 |
| Land use rights | **9,563,565** | 9,541,287 |
| Receivables from real estate buyers (Note 10) | **7,962,615** | 8,341,583 |
| Derivative assets (Notes 29 and 30) | **3,964,807** | 2,555,708 |
| Deferred input VAT | **3,287,375** | 2,042,045 |
| Long-term note (Notes 22 and 30) | **927,000** | – |
| Defined benefit asset (Note 26) | **553,543** | 561,160 |
| Escrow fund (Note 22) | **132,460** | 132,460 |
| Advances for project development | **44,935** | 48,270 |
| Others | **1,623,276** | 1,486,388 |
| | **₱38,927,352** | ₱32,567,952 |

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

- Included under "Land use rights" account are real estate properties with lot area of 89,378 and 212,119 square meters and with carrying values of ₱361.0 million and ₱488.0 million as at December 31, 2015 and 2014, respectively. These properties were appraised in August 2007 to have a fair value of ₱12,830.0 million and ₱13,531.0 million, respectively. These properties are planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these properties is not part of the consideration amounting to ₱10,827.0 million that was paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

- Long term note pertain to the loan agreement the Parent Company entered into with Atlas on June 9, 2015, amounting to ₱927.0 million, which bear a fixed interest rate of 4.0%, payable semi-annually in arrears. The loan will mature on June 9, 2018. The loan contains multiple embedded derivatives such as conversion, call and put options (see Note 30). Interest earned from this note is disclosed in Note 25.

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. Escrow fund in 2015 and 2014 also include deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

## 18. BANK LOANS

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Parent Company - | | |
| U.S. dollar-denominated loans | **₱–** | ₱1,341,600 |
| Subsidiaries - | | |
| Peso-denominated loans | **9,923,215** | 12,551,041 |
| | **₱9,923,215** | ₱13,892,641 |

The unsecured U.S. dollar-denominated loans amounting to nil and US$30.0 million with peso equivalent of nil and ₱1,341.6 million as at December 31, 2015 and 2014, respectively, bear fixed interest rates ranging from 1.08% to 1.79%.

The peso-denominated loans bear annual interest rates ranging from 2.00% to 4.15% and 2.00% to 4.40% in 2015 and 2014, respectively. A portion of the bank loans is secured by temporary investments as disclosed in Note 7.

These loans have maturities of less than one year (see Note 29).

Interest on bank loans is disclosed in Note 25.

## 19. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Trade | **₱43,599,678** | ₱40,797,521 |
| Accrued expenses | **12,149,516** | 8,373,934 |
| Nontrade | **3,674,874** | 6,158,423 |
| Payable to government agencies | **3,544,674** | 3,584,158 |
| Payable arising from acquisition of land | **3,188,749** | 3,603,261 |
| Due to related parties (Note 22) | **2,444,429** | 1,601,703 |
| Accrued interest (Note 22) | **1,870,031** | 1,606,536 |
| Derivative liabilities (Notes 29 and 30) | **–** | 1,092,382 |
| Gift checks redeemable and others | **2,651,475** | 3,043,147 |
| | **₱73,123,426** | ₱69,861,065 |

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- The terms and conditions relating to due to related parties is discussed in Note 22.
- Gift checks are redeemable at face value.

## 20. LONG-TERM DEBT

This account consists of:

| | Availment | Maturity | Interest rate/Term | Security | 2015 | 2014 |
|---|---|---|---|---|---|---|
| | | | | | *(In Thousands)* | |
| ***Parent Company*** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Fixed rate bonds | | | | | | |
| US$350.0 million senior bonds | June 10, 2014 | June 10, 2024 | Fixed 4.88%; semi-annual | Unsecured | **₱16,471,000** | ₱15,652,000 |
| US$500.0 million senior bonds | October 17, 2012 | October 17, 2019 | Fixed 4.25%; semi-annual | Unsecured | **23,530,000** | 22,360,000 |
| US$400.0 million exchanged bonds | October 13, 2010 | October 13, 2017 | Fixed 5.50%; semi-annual | Unsecured | **18,277,891** | 17,258,109 |
| Convertible bonds | | | | | | |
| US$250.0 million convertible bonds | February 15, 2012 | February 15, 2017 | Fixed 1.625%; semi-annual | Unsecured | **–** | 3,695,290 |
| US$300.0 million five-year term loans | June 19, 2013; July 2, 2013 | May 15, 2018 | Floating six-month LIBOR + margin; semi-annual | Unsecured | **14,118,000** | 13,416,000 |
| Peso-denominated: | | | | | | |
| Seven-year and ten-year retail bonds | | | | | | |
| Series C Bonds | July 16, 2012 | July 16, 2019 | Fixed 6.00%; semi-annual | Unsecured | **4,648,460** | 4,648,460 |
| Series D Bonds | July 16, 2012 | July 16, 2022 | Fixed 6.94%; semi-annual | Unsecured | **7,683,810** | 7,683,810 |
| Series E Bonds | May 19, 2014 | May 19, 2021 | Fixed 5.30%; semi-annual | Unsecured | **11,669,620** | 11,669,620 |
| Series F Bonds | May 19, 2014 | May 19, 2024 | Fixed 5.61%; semi-annual | Unsecured | **3,330,380** | 3,330,380 |
| Five-year and seven-year retail bonds | | | | | | |
| Series B Bonds | June 25, 2009 | June 25, 2016 | Fixed 9.10%; semi-annual | Unsecured | **1,000,000** | 1,000,000 |
| Other peso bank loans | April 23, 2013 - June 30, 2014 | January 14, 2019 - June 23, 2024 | Fixed 4.39%-5.4% and PDST-R2 + margin: semi-annual and quarterly | Unsecured | **19,000,300** | 20,195,650 |
| ***Subsidiaries*** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Five-year term loans | May 6, 2011 - April 23, 2014 | March 21, 2016 - April 14, 2019 | LIBOR + spread; semi-annual | Unsecured | **50,354,200** | 43,825,600 |
| Two-year, three-year and five-year bilateral loans | November 30, 2010 - December 7, 2012 | November 30, 2015 - August 30, 2017 | LIBOR + spread; semi-annual | Unsecured | **2,353,000** | 4,472,000 |
| Other U.S. dollar loans | November 20, 2013 | September 17, 2018 | LIBOR + spread; semi-annual | Unsecured | **1,176,500** | 1,118,000 |
| China Yuan Renminbi-denominated: | | | | | | |
| Five-year loan | July 28, 2015 | December 31, 2019 | CBC rate less 10%; quarterly | Secured | **32,249** | – |
| Peso-denominated: | | | | | | |
| Five-year, seven-year and ten-year retail bonds | September 1, 2014 - November 25, 2015 | March 1, 2020 - November 25, 2025 | Fixed 4.51%-5.74%; quarterly | Unsecured | **38,324,206** | 18,273,240 |
| Fixed rate term loans | December 27, 2012 - December 28, 2015 | December 23, 2015 - June 25, 2023 | Fixed 3.22%-5.94%; semi-annual and quarterly | Unsecured | **21,443,500** | 22,823,000 |
| | July 12, 2014 - July 31, 2014 | July 12, 2021 - July 31, 2021 | Fixed 5.25%-5.27%; quarterly | Secured | **2,893,044** | 3,000,000 |
| Five-year and ten-year notes | June 19, 2012 | June 20, 2017 - June 19, 2022 | Fixed 5.91%-6.74%; PDST-R2 + margin; quarterly | Unsecured | **7,226,500** | 7,301,000 |
| Five-year, seven-year and ten-year notes | January 12, 2012 | January 13, 2017 - January 12, 2022 | Fixed 5.86%-6.10%; PDST-R2 + margin; quarterly | Unsecured | **4,229,200** | 4,272,800 |
| Five-year, seven-year and ten-year corporate notes | December 20, 2010 - December 21, 2015 | December 21, 2015 - December 21, 2022 | Fixed 5.50%-6.65%; PDST-R2 + margin; quarterly | Unsecured | **6,520,000** | 6,528,000 |
| Four-year and five-year floating rate notes | March 18, 2011 - December 1, 2015 | March 19, 2016 - December 31, 2020 | PDST-R2 + margin; quarterly | Unsecured | **8,000,000** | 6,150,000 |
| Corporate notes | June 3, 2013 - June 28, 2014 | June 3, 2020 - June 3, 2023 | Fixed 5.25%-5.88%; semi-annual | Unsecured | **8,683,100** | 8,691,800 |
| Five-year bilateral loans | February 2, 2010 - October 24, 2011 | February 2, 2015 - October 24, 2016 | Fixed 5.00%; PDST-R2 + margin; quarterly | Unsecured | **500,000** | 538,800 |
| Other bank loans | August 15, 2006 - June 8, 2015 | June 24, 2015 - June 8, 2020 | Fixed 5.00%-9.75%; PDST-R2 + margin; semi-annual and quarterly | Unsecured | **1,525,000** | 1,985,280 |
| | | | | | **272,989,960** | 249,888,839 |
| Less debt issue cost | | | | | **1,827,891** | 2,106,176 |
| | | | | | **271,162,069** | 247,782,663 |
| Less current portion | | | | | **25,994,800** | 10,669,108 |
| | | | | | **₱245,167,269** | ₱237,113,555 |

*Parent Company*

Fixed Rate Bonds

*US$400.0 million Exchanged Bonds*
This issuance is comprised of US$186.3 million, additional bonds, US$82.9 million, and US$130.8 million exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.00% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%). The carrying amount of the bonds amounted to ₱18,277.9 million and ₱17,258.1 million as at December 31, 2015 and 2014, respectively.

Convertible Bonds

*US$250.0 million Convertible Bonds*
The convertible bonds have a yield-to-maturity of 2.875% at inception and are due on its maturity at 106.67%. The bonds contain multiple embedded derivatives which were bifurcated at inception (see Note 30).

- Conversion option - Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for the Parent Company's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises his conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2015 and 2014, the bondholders of US$98.2 million (₱3,695.3 million) and US$1.0 million (₱37.6 million) opted to convert their holdings into 6,714,759 and 68,378 of SMIC's shares, respectively (see Note 21).

  As of April 9, 2015, the remaining US$98.2 million was fully converted in SMIC shares.

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

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

US$300.0 million Five-year U.S. Dollar Term Loans
Portion of the loan amounting to US$180.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

Seven-year and Ten-year Retail Bonds

*Series C Bonds*
At various dates in 2014, the Parent Company redeemed ₱375.0 million of the ₱5,023.5 million bonds.

*Series D Bonds*
At various dates in 2014, the Parent Company redeemed ₱375.0 million of the ₱8,058.8 million bonds.

Other Peso Bank Loans

- On April 14, 2015, the Company prepaid ₱290.0 million of the ₱3,000.0 million five-year term loan. The outstanding balance as at December 31, 2015 and 2014 amounted to ₱2,710.0 million and ₱3,000.0 million, respectively.

- In June 2014, the Company obtained two seven-year term loans amounting to ₱1,600.0 million and ₱1,650.0 million. The annual principal repayment of ₱1.0 million commenced on the 12th month from issue date, with the last installment payment to be made at maturity date.

  On March 6, 2015, the Company prepaid ₱900.0 million of the ₱1,650.0 million seven-year term loan. The outstanding balance as at December 31, 2015 and 2014 amounted to ₱2,349.0 million and ₱3,250.0 million, respectively.

- In August 2013, the Company obtained a seven-year term loan amounting to ₱2,000.0 million. The annual principal repayment of ₱2.0 million commenced on the 12th month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2015 and 2014 amounted to ₱1,996.0 million and ₱1,998.0 million, respectively.

- In April 2013, the Company obtained seven-year and ten-year term loans amounting to ₱2,250.0 million and ₱100.0 million, respectively. The annual principal repayment of ₱2.25 million and ₱0.10 million, respectively, commenced on the 12th month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2015 amounted to ₱2,245.5 million and ₱99.8 million, respectively and December 31, 2014 amounted to ₱2,247.8 million and ₱99.9 million, respectively.

*Subsidiaries*

U.S. Dollar-denominated Five-Year Term Loans

- US$300.0 million syndicated loan obtained on various dates in 2013. The loan bears interest based on the London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US$150.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

- US$200.0 million syndicated loan obtained on January 29, 2013. The loan bears interest based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

- US$90.0 million loan obtained on January 15, 2015. The loan bears interest based on LIBOR plus spread with a bullet maturity on April 14, 2019.

China Yuan Renminbi-denominated Five-Year Loan

- This represents a ¥5.0 million out of ¥400.0 million loan facility obtained on July 28, 2015 to finance the construction of shopping malls. The loan is payable in quarterly installments until December 2019. The loan has a floating rate with quarterly re-pricing at the prevailing rate dictated by People's Bank of China. The loan bears interest at 5.00% in 2015 and is secured by a portion of investment properties in China.

Philippine Peso-denominated Five-Year and Ten-Year Retail Bonds

- ₱20.0 billion fixed rate bonds issued on November 25, 2015. The issue consists of the five-year and three months Series D Bonds amounting to ₱17,969.0 million with a fixed interest rate of 4.5095% due on February 25, 2021 and ten-year Series E Bonds amounting to ₱2,031.0 million with a fixed interest rate of 4.7990% due on November 25, 2025.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- P20.0 billion fixed rate bonds issued on September 1, 2014. The issue consists of five-year and six months Series A Bonds amounting to ₱15,036.0 million with a fixed interest rate of 5.10% due on March 1, 2020, seven-year Series B Bonds amounting to ₱2,362.0 million with a fixed interest rate of 5.20% due on September 1, 2021, and ten-year Series C Bonds amounting to ₱2,602.0 million with a fixed interest rate of 5.74% due on September 1, 2024.

Debt Issue Cost
The movements in unamortized debt issue cost follow:

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱2,106,176** | ₱1,801,733 |
| Amortization (Notes 22 and 25) | **(546,246)** | (549,840) |
| Additions | **316,885** | 854,860 |
| Conversions | **(38,464)** | (480) |
| Prepayments (Notes 22 and 25) | **(10,460)** | (97) |
| Balance at end of year | **₱1,827,891** | ₱2,106,176 |

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2015 follows:

| | Gross Loan | Debt Issue Cost | Net |
|---|---|---|---|
| | | *(In Thousands)* | |
| 2016 | ₱26,025,559 | (₱30,759) | ₱25,994,800 |
| 2017 | 27,393,419 | (111,923) | 27,281,496 |
| 2018 | 43,724,494 | (467,663) | 43,256,831 |
| 2019 | 56,043,827 | (460,209) | 55,583,618 |
| 2020 | 29,415,866 | (143,068) | 29,272,798 |
| 2021 | 40,906,543 | (285,323) | 40,621,220 |
| 2022 | 18,927,170 | (70,501) | 18,856,669 |
| 2023 | 4,518,960 | (22,357) | 4,496,603 |
| 2024 | 24,003,080 | (218,802) | 23,784,278 |
| 2025 | 2,031,042 | (17,286) | 2,013,756 |
| | ₱272,989,960 | (₱1,827,891) | ₱271,162,069 |

Covenants
The long-term debts of the Group contain certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence with financial ratios namely, (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2015 and 2014, the Group is in compliance with the terms of its debt covenants.

## 21. EQUITY

Capital Stock

a. Common stock

| | Number of Shares | |
|---|---|---|
| | **2015** | 2014 |
| Authorized - ₱10 par value per share | **1,190,000,000** | 1,190,000,000 |
| Issued and subscribed: | | |
| Balance at beginning of year | **796,340,646** | 796,272,268 |
| Issuances | **6,714,759** | 68,378 |
| Balance at end of year | **803,055,405** | 796,340,646 |

On various dates in 2015 and 2014, additional 6,714,759 common shares and 68,378 common shares, respectively, were issued as a result of conversion of the Parent Company's convertible bonds (see Note 20). The excess of the conversion price over par value totaling ₱4,833.1 million and ₱47.2 million in 2015 and 2014, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31 2015 and 2014, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

| Date of SEC Approval | Authorized Shares | Number of Shares Issued | Issue/Offer Price |
|---|---|---|---|
| March 22, 2005 | | 105,000,000 | ₱250 |
| November 6, 2007 | | 56,000,000 | 218 |
| June 14, 2007 | 100,000,000 | | 10 |
| April 25, 2007 | | 25,023,038 | 10 |
| October 4, 2010 to March 13, 2012 Conversion of convertible bonds | | 2,851,582 | 453 |
| September 24, 2012 | | 9,100,000 | 700 |
| January 23, 2013 to July 5, 2013 Conversion of convertible bonds | | 7,651,851 | 781 |
| June 14, 2013 | 500,000,000 | | 10 |
| June 24, 2013 | | 157,000,000 | 10 |
| July 12, 2013 | | 657,314 | 10 |
| July 18, 2013 to November 1, 2013 Conversion of convertible bonds | | 738,483 | 625 |
| August 1, 2013 | | 7,250,000 | 900 |
| August 27, 2014 Conversion of convertible bonds | | 68,378 | 625 |
| January 15, 2015 to April 9, 2015 Conversion of convertible bonds | | 6,714,759 | 625 |

The Parent Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company is 1,243 and 1,237 as at December 31, 2015 and 2014, respectively.

b. Redeemable preferred shares

| | Number of shares | |
|---|---|---|
| | **2015** | 2014 |
| Authorized - ₱10 par value per share | **10,000,000** | 10,000,000 |

There are no issued and subscribed preferred shares as at December 31, 2015 and 2014.

Additional Paid-in Capital

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Paid in subscription in excess of par value | **₱57,555,394** | ₱57,555,394 |
| Equity reserve from reissuance of common shares of a subsidiary | **14,105,528** | 14,105,528 |
| Conversion of convertible bonds | **4,880,275** | 47,194 |
| Acquisition of non-controlling interests | **(385,538)** | – |
| Disposal of Parent common shares held by subsidiaries | **243,966** | 243,966 |
| | **₱76,399,625** | ₱71,952,082 |

On November 27, 2014, SM Prime reissued 1,060 million common shares held in treasury to its non-controlling shareholders for a total consideration of ₱17,645.7 million which resulted to an increase in "Non-controlling interests" of ₱3,540.2 million and an increase in "Additional paid-in capital" of ₱14,105.5 million as at December 31, 2014.

Cost of Parent Common Shares Held by Subsidiaries
Details of the cost of common shares held by subsidiaries follow:

| | Shares held by subsidiaries | Average cost | Cost of common shares held by subsidiaries | Selling price per share | Gain on disposal |
|---|---|---|---|---|---|
| | | | *(In Millions)* | | *(In Millions)* |
| As at December 31, 2011 | 820,491 | ₱320.8 | ₱263.2 | | |
| Sale by SM Land and MRDC | (430,000) | 320.8 | (137.3) | ₱753.3 | ₱184.5 |
| As at December 31, 2012 | 390,491 | 322.4 | 125.9 | | |
| Stock dividends (25%) | 97,623 | – | – | | |
| Sale by SM Land | (389,612) | 257.7 | (100.5) | 952.2 | 267.7 |
| As at December 31, 2013, 2014 and 2015 | 98,502 | ₱257.7 | ₱25.4 | | |

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

In 2013, the Group executed a corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions.

Retained Earnings

a. Appropriated

Following are the appropriations approved by the BOD:

| | Date of BOD Approval | Amount |
|---|---|---|
| | | *(In Thousands)* |
| Initial appropriation | November 5, 2003 | ₱5,000,000 |
| Additional appropriation | December 14, 2012 | 30,000,000 |
| Reversal of appropriation | April 25, 2013 | (8,000,000) |
| Reversal of appropriation | November 4, 2015 | (18,000,000) |
| Additional appropriation | November 4, 2015 | 27,000,000 |

Retained earnings appropriated as at December 31, 2015 is intended for the payment of certain long-term debts and new investments as follows:

| | Timeline | Amount |
|---|---|---|
| | | *(In Thousands)* |
| Debt servicing | | |
| US$400.0 million | 2017 | ₱18,800,000 |
| US$180.0 million | 2018 | 8,200,000 |
| New investments | 2016–2020 | 9,000,000 |
| | | ₱36,000,000 |

b. Unappropriated

The Parent Company's dividend declarations in 2015 and 2014 follow:

| Declaration Date | Record Date | Payment Date | Cash Dividend per Share | Total Cash Dividends |
|---|---|---|---|---|
| | | | | *(In Thousands)* |
| **April 29, 2015** | **May 14, 2015** | **June 9, 2015** | **₱10.61** | **₱8,520,418** |
| April 30, 2014 | May 30, 2014 | June 26, 2014 | 10.34 | 8,233,455 |

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱147,055.7 million and ₱137,756.2 million as at December 31, 2015 and 2014, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

## 22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

a. Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

b. Management and Service Fees

The Group pays management fees to Shopping Center Management Corporation and SM Lifestyle Entertainment, Inc. (related parties under common stockholders) for the management of certain office and mall premises.

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

c. Dividend Income

The Group earns dividend income from certain related parties under common stockholders.

d. Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

e. Others

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

The related party transactions and outstanding balances as at and for the years ended December 31, 2015, 2014 and 2013 follow:

| | Transaction Amount | | | Outstanding Amount | | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | **2015** | 2014 | | |
| | | | *(In Thousands)* | | | | |
| **Banking Group** | | | | | | | |
| Cash placement and investment in debt securities | **₱–** | ₱– | ₱– | **₱106,498,300** | ₱117,113,342 | Interest-bearing 0.75% to 4.90% | Unsecured; no impairment |
| Interest receivable | **–** | – | – | **396,819** | 436,604 | Interest-bearing | Unsecured; |
| Interest income | **2,407,497** | 2,474,837 | 3,041,039 | **–** | – | 0.75% to 4.90% | no impairment |
| Interest bearing debt | **–** | – | – | **8,361,170** | 13,298,618 | Interest-bearing 1.08% to 10.00% | Unsecured |
| Interest payable | **–** | – | – | **30,330** | 38,903 | Interest-bearing | Unsecured |
| Interest expense | **592,922** | 1,211,036 | 794,208 | **–** | – | 1.08% to 10.00% | |
| Rent receivable | **–** | – | – | **181,225** | 181,459 | Noninterest-bearing | Unsecured; |
| Rent income | **679,691** | 615,757 | 82,929 | **–** | – | | no impairment |
| Management fee receivable | **–** | – | – | **29,405** | 31,437 | Noninterest-bearing | Unsecured; |
| Management fee income | **6,533** | 7,412 | – | **–** | – | | no impairment |
| Service fee receivable | **–** | – | – | **129,418** | 81,682 | Noninterest-bearing | Unsecured; |
| Service fee income | **260** | 686 | – | **–** | – | | no impairment |
| Escrow fund | **–** | – | – | **567,639** | 797,778 | Interest-bearing 1.3% to 1.4% | Unsecured; no impairment |
| **Retail and Other Entities** | | | | | | | |
| Rent receivable | **–** | – | – | **896,132** | 1,708,815 | Noninterest-bearing | Unsecured; |
| Rent income | **3,854,572** | 3,959,364 | 4,451,749 | **–** | – | | no impairment |
| Management fee receivable | **–** | – | – | **226,124** | 196,378 | Noninterest-bearing | Unsecured; |
| Management fee income | **361,447** | 453,910 | 309,310 | **–** | – | | no impairment |
| Management fee payable | **–** | – | – | **117,402** | 101,775 | Noninterest-bearing | Unsecured |
| Management fee expense | **1,058,753** | 1,111,368 | 976,415 | **–** | – | | |
| Service fee receivable | **–** | – | – | **149,232** | 108,515 | Noninterest-bearing | Unsecured; |
| Service fee income | **655,349** | 537,008 | 685,260 | | | | no impairment |
| Dividend receivable | **–** | – | – | **487,427** | 871,103 | Noninterest-bearing | Unsecured; |
| Dividend income | **486,897** | 510,684 | 716,384 | **–** | – | | no impairment |
| Due from related parties | **–** | – | – | **1,350,612** | 1,194,099 | Noninterest-bearing | Unsecured; no impairment |
| Due to related parties | **–** | – | – | **2,444,429** | 1,601,703 | Noninterest-bearing | Unsecured |
| Interest receivable | **–** | – | – | **9,467** | 4,868 | Interest-bearing | Unsecured; |
| Interest income | **53,882** | 15,699 | – | **–** | – | 4.0% to 6.5% | no impairment |
| Notes receivable/ Long-term note | **–** | – | – | **1,908,435** | – | Interest-bearing 4.0% to 5.0% | Unsecured; no impairment |

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2015 and 2014, the Group did not make any provision for impairment loss relating to amounts owed by related parties. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2015, 2014 and 2013 consist of short-term employee benefits amounting to ₱1,126.3 million, ₱938.2 million and ₱777.3 million, respectively, and post-employment benefits amounting to ₱144.5 million, ₱109.0 million and ₱88.7 million, respectively.

## 23. COST OF MERCHANDISE SALES

This account consists of:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Merchandise inventories at beginning of year | **₱14,882,200** | ₱13,232,308 | ₱13,402,762 |
| Purchases | **164,404,313** | 152,567,479 | 138,549,914 |
| Total goods available for sale | **179,286,513** | 165,799,787 | 151,952,676 |
| Less merchandise inventories at end of year | **16,262,228** | 14,882,200 | 13,232,308 |
| | **₱163,024,285** | ₱150,917,587 | ₱138,720,368 |

## 24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Personnel cost (Note 22) | **₱13,450,135** | ₱12,503,274 | ₱11,411,522 |
| Depreciation and amortization (Notes 14 and 15) | **11,362,639** | 10,907,625 | 9,513,584 |
| Utilities | **8,867,695** | 9,038,332 | 8,126,266 |
| Rent (Note 28) | **5,799,964** | 5,467,674 | 5,252,339 |
| Taxes and licenses | **5,325,168** | 5,036,077 | 4,531,029 |
| Marketing and selling | **3,367,895** | 3,451,654 | 3,364,195 |
| Outside services | **4,040,577** | 3,512,760 | 3,020,899 |
| Repairs and maintenance | **1,929,521** | 1,733,961 | 1,218,771 |
| Supplies | **1,489,353** | 1,342,047 | 1,073,044 |
| Management fees (Note 22) | **1,324,253** | 1,195,192 | 1,063,859 |
| Transportation and travel | **703,907** | 672,422 | 502,028 |
| Insurance | **661,259** | 665,379 | 552,183 |
| Provision (reversal) of impairment loss and others (Notes 10, 13 and 15) | **478,869** | (288,547) | (1,018,156) |
| Pension expense (benefit) (Note 26) | **447,738** | 376,568 | (92,085) |
| Entertainment, representation and amusement | **357,699** | 319,339 | 246,013 |
| Professional fees | **280,360** | 318,031 | 326,985 |
| Donations | **255,545** | 207,103 | 115,605 |
| Data processing | **242,923** | 317,914 | 206,183 |
| Communications | **210,853** | 173,073 | 165,854 |
| Others | **3,110,727** | 3,760,272 | 1,606,275 |
| | **₱63,707,080** | ₱60,710,150 | ₱51,186,393 |

## 25. INTEREST INCOME AND INTEREST EXPENSE

The sources of interest income and interest expense follow:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Interest income on: | | | |
| Time deposits (Note 8) | **₱2,058,413** | ₱2,059,817 | ₱2,245,719 |
| Cash in banks and temporary investments (Note 7) | **617,454** | 484,169 | 912,152 |
| AFS investments (Notes 9 and 12) | **326,658** | 380,399 | 414,427 |
| Investments held for trading (Note 9) | **17,998** | 25,790 | 28,310 |
| Others (Notes 11 and 17) | **135,277** | 82,460 | 108,876 |
| | **₱3,155,800** | ₱3,032,635 | ₱3,709,484 |
| Interest expense on: | | | |
| Long-term debt (Note 20) | **₱9,231,248** | ₱11,069,673 | ₱6,951,247 |
| Bank loans (Note 18) | **640,910** | 641,023 | 3,960,390 |
| Others (Note 30) | **588,478** | 185,169 | 176,409 |
| | **₱10,460,636** | ₱11,895,865 | ₱11,088,046 |

## 26. PENSION BENEFITS

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Selling, general and administrative expenses")

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Net benefit expense: | | | |
| Current service cost | **₱469,351** | ₱405,822 | ₱350,898 |
| Net interest income | **(21,613)** | (28,952) | (39,409) |
| Others | **–** | (302) | (403,574) |
| | **₱447,738** | ₱376,568 | (₱92,085) |

Changes in the net defined benefit liability and asset

a. Net Defined Benefit Liability

The movements in the subsidiaries' pension plan which resulted in a defined benefit liability as at December 31, 2015, 2014 and 2013 follow:

| | Present value of Defined Benefit Obligation | Fair Value of Plan Assets | Amount not Recognized due to Asset Limit/ Unrecognized Actuarial Loss | Defined Benefit Liability (Asset) |
|---|---|---|---|---|
| | | | *(In Thousands)* | |
| At December 31, 2013 | ₱1,395,264 | ₱1,240,943 | ₱– | ₱154,321 |
| Net benefit expense (Note 24): | | | | |
| Current service cost | 103,343 | – | – | 103,343 |
| Net interest cost | 58,595 | 55,857 | 27 | 2,765 |
| Others | (302) | – | – | (302) |
| | 161,636 | 55,857 | 27 | 105,806 |
| Re-measurements in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | – | 25,866 | – | (25,866) |
| Actuarial changes arising from: | | | | |
| Changes in financial assumptions | 89,724 | – | – | 89,724 |
| Changes in demographic assumptions | (19,707) | – | – | (19,707) |
| Experience adjustment | 79,270 | – | – | 79,270 |
| Others | – | – | (13,772) | (13,772) |
| | 149,287 | 25,866 | (13,772) | 109,649 |
| Reclassifications from defined benefit assets | (462,424) | (389,293) | – | (73,131) |
| Actual contributions | – | 114,978 | – | (114,978) |
| Benefits paid | (29,424) | (29,424) | – | – |
| Transfer from related parties | 8,158 | 8,158 | – | – |
| Other adjustments | 17,155 | 3,320 | 13,745 | 27,580 |
| At December 31, 2014 | **1,239,652** | **1,030,405** | **–** | **209,247** |
| Net benefit expense (Note 24): | | | **–** | |
| Current service cost | **107,871** | **–** | **–** | **107,871** |
| Net interest cost | **41,778** | **35,879** | **–** | **5,899** |
| Actuarial loss | **–** | **–** | **–** | **–** |
| | **149,649** | **35,879** | **–** | **113,770** |
| Re-measurements in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | **–** | **(36,087)** | **–** | **36,087** |
| Actuarial changes arising from: | | | | |
| Changes in financial assumptions | **(114,876)** | **–** | **–** | **(114,876)** |
| Changes in demographic assumptions | **(32,083)** | **–** | **–** | **(32,083)** |
| Experience adjustment | **17,774** | **–** | **–** | **17,774** |
| Others | **–** | **–** | **(24)** | **(24)** |
| | **(129,185)** | **(36,087)** | **(24)** | **(93,122)** |
| Reclassifications from defined benefit assets | **(322,307)** | **(248,023)** | **–** | **(74,284)** |
| Actual contributions | **–** | **44,493** | **–** | **(44,493)** |
| Benefits paid | **(17,620)** | **(17,620)** | **–** | **–** |
| Transfer from (to) related parties | **(1,458)** | **(665)** | **–** | **(793)** |
| Other adjustments | **15,546** | **–** | **24** | **15,570** |
| At December 31, 2015 | **₱934,277** | **₱808,382** | **₱–** | **₱125,895** |

b. Net Defined Benefit Asset

The movements in the subsidiaries' pension plan which resulted in a defined benefit asset as at December 31, 2015, 2014 and 2013 follow:

| | Present value of Defined Benefit Obligation | Fair Value of Plan Assets | Amount not recognized due to asset limit/ Unrecognized actuarial loss | Defined Benefit Liability (Asset) |
|---|---|---|---|---|
| | | | *(In Thousands)* | |
| At December 31, 2013 | ₱2,640,893 | ₱3,343,406 | ₱86,531 | (₱615,982) |
| Net benefit expense (Note 24): | | | | |
| Current service cost | 302,479 | – | – | 302,479 |
| Net interest income | 195,115 | 232,299 | 5,467 | (31,717) |
| | 497,594 | 232,299 | 5,467 | 270,762 |
| Re-measurements in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | – | 124,890 | – | (124,890) |
| Actuarial changes arising from: | | | | |
| Changes in financial assumptions | (130,985) | – | – | (130,985) |
| Changes in demographic assumptions | 214 | – | – | 214 |
| Experience adjustment | 54,138 | – | – | 54,138 |
| Others | – | | (38,009) | (38,009) |
| | (76,633) | 124,890 | (38,009) | (239,532) |
| Reclassifications to defined benefit assets | 462,426 | 389,294 | – | 73,132 |
| Actual contributions | – | 48,199 | – | (48,199) |
| Benefits paid | (123,046) | (123,046) | – | – |
| Transfer to the plan | (6,455) | (6,455) | – | – |
| Amount not recognized due to asset limit | – | – | 52,647 | 52,647 |
| Other adjustments | (1,749) | (1,749) | (53,988) | (53,988) |
| At December 31, 2014 | **3,393,030** | **4,006,838** | **52,648** | **(561,160)** |
| Net benefit expense (Note 24): | | | | |
| Current service cost | **361,480** | **–** | **–** | **361,480** |
| Net interest income | **171,787** | **199,574** | **275** | **(27,512)** |
| | **533,267** | **199,574** | **275** | **333,968** |
| Re-measurements in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | **–** | **(199,283)** | **–** | **199,283** |
| Actuarial changes arising from: | | | | |
| Changes in financial assumptions | **(296,263)** | **–** | **–** | **(296,263)** |
| Changes in demographic assumptions | **(6,143)** | **–** | **–** | **(6,143)** |
| Experience adjustment | **(102,260)** | **–** | **–** | **(102,260)** |
| Others | **–** | **–** | **(31,940)** | **(31,940)** |
| | **(404,666)** | **(199,283)** | **(31,940)** | **(237,323)** |
| Reclassifications from defined benefit liabilities | **322,307** | **248,023** | **–** | **74,284** |
| Actual contributions | **–** | **152,304** | **–** | **(152,304)** |
| Benefits paid | **(141,716)** | **(141,716)** | **–** | **–** |
| Transfer to the plan | **5,985** | **5,985** | **–** | **–** |
| Amount not recognized due to asset limit | **–** | **–** | **5,470** | **5,470** |
| Other adjustments | **–** | **(4,656)** | **(21,134)** | **(16,478)** |
| At December 31, 2015 | **₱3,708,207** | **₱4,267,069** | **₱5,319** | **(₱553,543)** |

The principal assumptions used in determining the pension obligations of the Group follow:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | **4%–6%** | 4%–6% |
| Future salary increases | **3%–10%** | 3%–10% |

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cash and cash equivalents | **₱629,915** | ₱251,447 |
| Investment in debt and other securities | **1,009,678** | 948,725 |
| Investment in common trust funds | **1,652,236** | 1,968,692 |
| Investment in equity securities | **189,968** | 181,087 |
| Investment in government securities | **1,558,279** | 1,651,825 |
| Others | **35,375** | 35,467 |
| | **₱5,075,451** | ₱5,037,243 |

- Cash and cash equivalents include regular savings and time deposits;
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.38% to 6.80% have maturities from June 2019 to April 2025 in 2015 and 2014;
- Investment in common trust funds consists of unit investment trust fund placements;
- Investment in equity securities consists of listed and unlisted equity securities;
- Investments in government securities consist of retail treasury bonds that bear interest ranging from 2.13% to 8.75% and 3.50% to 10.69% have maturities from January 2016 to November 2032 and February 2015 to October 2037 in 2015 and 2014, respectively; and
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank, as at and for the years ended December 31, 2015 and 2014, follow:

| | 2015 | 2014 |
|---|---|---|
| | | *(In Thousands)* |
| Balances: | | |
| Cash and cash equivalents | **₱316,280** | ₱160,743 |
| Investment in common trust funds | **1,652,236** | 1,968,692 |
| Transactions: | | |
| Interest income from cash and cash equivalents | **2,130** | 2,209 |
| Gains from investment in common trust funds | **1,251,183** | 1,341,211 |

The Group expects to contribute about ₱193.3 million to its Pension Plan in 2016.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2015, assuming all other assumptions were held constant:

| | Increase (Decrease) in Basis Points | Increase (Decrease) in Defined Benefit Obligation |
|---|---|---|
| | *(In Thousands)* | |
| Discount rates | 50 | (₱372,326) |
| | (50) | 378,862 |
| Future salary increases | 100 | 696,675 |
| | (100) | (676,500) |
| No attrition of rates | – | 3,828,513 |

The average duration of the Group's defined benefit obligation is 6 to 32 years and 7 to 32 years as at December 31, 2015 and 2014, respectively.

The maturity analysis of the undiscounted benefit payments follows:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Less than 1 year to 5 years | **₱988,076** | ₱1,026,703 |
| More than 5 years to 10 years | **2,040,795** | 1,860,607 |
| More than 10 years to 15 years | **3,771,582** | 3,327,144 |
| More than 15 years to 20 years | **9,035,566** | 8,085,777 |
| More than 20 years | **169,082,301** | 174,975,720 |

The Group has no specific matching strategies between the Plan assets and the defined benefit obligation.

## 27. INCOME TAX

The details of the Group's deferred tax assets and liabilities follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Deferred tax assets: | | |
| Excess of fair values over cost of investment properties | **₱1,166,570** | ₱1,186,890 |
| Accrued leases | **477,025** | 304,286 |
| NOLCO | **461,561** | 324,460 |
| Deferred rent expense | **228,443** | 192,274 |
| Provision for doubtful accounts and others | **149,571** | 110,027 |
| Unamortized past service cost and defined benefit liability | **65,985** | 149,160 |
| MCIT | **20,645** | 26,847 |
| | **₱2,569,800** | ₱2,293,944 |
| Deferred tax liabilities: | | |
| Appraisal increment on investment property | **₱2,399,330** | ₱2,417,479 |
| Trademarks and brand names | **1,879,000** | 1,879,000 |
| Capitalized interest | **1,396,868** | 1,217,246 |
| Unrealized gross profit on sale of real estate | **1,217,472** | 877,069 |
| Accrued/deferred rent income | **180,726** | 165,333 |
| Unamortized past service cost and defined benefit asset | **147,506** | 147,970 |
| Others | **213,875** | 163,828 |
| | **₱7,434,777** | ₱6,867,925 |

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertain to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| NOLCO | **₱6,723,420** | ₱3,506,043 |
| Net unrealized foreign exchange loss | **708,939** | 798,763 |
| Allowance for impairment losses | **506,593** | 288,975 |
| MCIT | **151,029** | 78,596 |
| Past service cost | **131,883** | 89,424 |
| Non-refundable advance rentals | **32,864** | 25,886 |
| Defined benefit liability | **–** | 68,669 |
| | **₱8,254,728** | ₱4,856,356 |

NOLCO and MCIT amounting to ₱106.5 million and ₱86.4 million were applied in 2015 and 2014, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax follow:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Statutory income tax rate | **30%** | 30% | 30% |
| Deduct income tax effects of reconciling items: | | | |
| Equity in net earnings of associate companies and joint ventures | **(9)** | (9) | (9) |
| Interest income subjected to final tax | **(2)** | (2) | (3) |
| Change in unrecognized deferred tax assets | **1** | (2) | (3) |
| Dividend income exempt from tax | **–** | – | (1) |
| Others | **(1)** | (1) | (2) |
| Effective income tax rates | **19%** | 16% | 12% |

## 28. LEASE AGREEMENTS

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

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits (see Notes 29 and 30).

The future minimum lease receivables under the non-cancellable operating leases of the Group as at December 31 follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Millions)* | |
| Within one year | **₱3,812** | ₱3,385 |
| After one year but not more than five years | **8,551** | 8,616 |
| More than five years | **5,008** | 1,939 |
| | **₱17,371** | ₱13,940 |

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

The future minimum lease payables under the non-cancellable operating leases of the Group as at December 31 follow:

| | 2015 | 2014 |
|---|---|---|
| | *(In Millions)* | |
| Within one year | **₱717** | ₱744 |
| After one year but not more than five years | **3,190** | 3,138 |
| More than five years | **25,737** | 25,867 |
| | **₱29,644** | ₱29,749 |

Tenants' deposits amounted to ₱14,014.7 million and ₱14,032.0 million as at December 31, 2015 and 2014, respectively.

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments, other than derivatives, consists of bank loans, long-term debt, AFS investments, investments held for trading, time deposits, cash and cash equivalents, non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are as follows:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars and China Yuan Renminbi.

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

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make required payments.

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

The BOD reviews and approves policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

<u>Interest Rate Risk</u>
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (see Note 30).

As at December 31, 2015 and 2014, after taking into account the effect of the swaps, approximately 74% and 68% of the Group's borrowings are kept at fixed interest rates.

*Interest Rate Risk Sensitivity Analysis.* The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

| | Increase (Decrease) in Basis Points | Effect on Income Before Tax | Effect on Equity After Income Tax |
|---|---|---|---|
| | | *(In Millions)* | |
| **2015** | **100** | **(₱612.1)** | **(₱161.7)** |
| | **50** | **(306.1)** | **(81.2)** |
| | **(100)** | **612.1** | **169.3** |
| | **(50)** | **306.1** | **84.3** |
| 2014 | 100 | (₱727.2) | (₱220.4) |
| | 50 | (363.1) | (117.6) |
| | (100) | 727.2 | 204.5 |
| | (50) | 363.1 | 94.8 |

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment.

Foreign Currency Risk
The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **US$** | **RMB** | **Ph₱** | US$ | RMB | Ph₱ |
| | | | *(In Thousands)* | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | **$3,364** | **¥** | **₱158,297** | $8,913 | ¥ | ₱398,607 |
| Time deposits | **204,000** | **–** | **9,600,240** | 201,000 | – | 8,988,720 |
| Receivables | **9,099** | **4,960,777** | **36,379,086** | 9,498 | 4,414,798 | 32,240,051 |
| AFS investments | **3,810** | **–** | **179,282** | 22,065 | – | 986,742 |
| Noncurrent assets: | | | | | | |
| AFS investments | **104,874** | **–** | **4,935,357** | 109,110 | – | 4,879,403 |
| Time deposits | **1,038,628** | **–** | **48,877,817** | 1,031,407 | – | 46,124,510 |
| Derivative assets | **19,582** | **–** | **921,544** | 19,582 | – | 875,721 |
| Total foreign currency-denominated financial assets | **1,383,357** | **4,960,777** | **101,051,623** | 1,401,575 | 4,414,798 | 94,493,754 |
| Current liabilities: | | | | | | |
| Bank loans | **–** | **–** | **–** | 30,000 | – | 1,341,600 |
| Current portion of long-term debt | **270,000** | **1,110** | **12,714,244** | 50,000 | – | 2,236,000 |
| Accounts payable and other current liabilities | **9,951** | **–** | **468,280** | 35,097 | – | 1,569,553 |
| Noncurrent liabilities: | | | | | | |
| Long-term debt - net of current portion | **1,880,502** | **3,340** | **88,520,607** | 2,135,949 | – | 95,519,632 |
| Derivative liabilities | **–** | **–** | **–** | 1,313 | – | 58,705 |
| Total foreign currency-denominated financial liabilities | **2,160,453** | **4,450** | **101,703,131** | 2,252,359 | – | 100,725,490 |
| Net foreign currency-denominated financial assets (liabilities) | **($777,096)** | **¥4,956,327** | **(₱651,508)** | ($850,784) | ¥4,414,798 | (₱6,231,736) |

As at December 31, 2015 and 2014, approximately 44.6% and 46.7% respectively, of the Group's total consolidated bank loans and long-term debt were denominated in U.S. dollars. Thus, appreciation of the Philippine peso against the U.S. dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱240.8 million, ₱179.1 million and ₱59.4 million on its net foreign currency-denominated assets and liabilities for the years ended December 31, 2015, 2014 and 2013, respectively. This resulted from the movements of the closing rates of U.S. dollar against the Philippine peso and China Yuan Renminbi as shown in the table below:

| | **2015** | 2014 |
|---|---|---|
| China Yuan Renminbi to U.S. dollar | **RMB6.4937** | RMB6.2055 |
| Philippine Peso to U.S. dollar | **₱47.06** | ₱44.72 |

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in exchange rate of U.S. Dollar to Philippine Peso and U.S. Dollar to China Yuan Renminbi of financial assets and liabilities, with all other variables held constant:

| | US$-denominated | | RMB-denominated | |
|---|---|---|---|---|
| | Appreciation (Depreciation) of ₱ | Effect on Income Before Tax | Appreciation (Depreciation) of $ | Effect on Income Before Tax |
| | | *(In Millions)* | | *(In Millions)* |
| **2015** | **1.50** | **(₱1,165.6)** | **1.50** | **($1,144.9)** |
| | **1.00** | **(777.1)** | **1.00** | **(763.3)** |
| | **(1.50)** | **1,165.6** | **(1.50)** | **1,144.9** |
| | **(1.00)** | **777.1** | **(1.00)** | **763.3** |
| 2014 | 1.50 | (₱1,276.2) | 1.50 | ($1,067.1) |
| | 1.00 | (850.8) | 1.00 | (711.4) |
| | (1.50) | 1,276.2 | (1.50) | 1,067.1 |
| | (1.00) | 850.8 | (1.00) | 711.4 |

Liquidity Risk
The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets. The Group also has readily available credit facilities with banks and related parties to meet its long-term financial liabilities.

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

The Group's financial assets, which have maturities of less than 12 months, and used to meet its short-term liquidity needs, include the following:

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Cash and cash equivalents | **₱53,910,071** | ₱69,133,381 |
| Current portion of time deposits | **9,611,405** | 9,000,324 |
| Investments held for trading - bonds | **279,359** | 307,835 |
| Current portion of AFS investments - Bonds and corporate notes | **179,282** | 986,742 |

The maturity profile of the Group's financial liabilities follow:

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **Less than 1 Year** | **2 to 5 Years** | **More than 5 Years** | **Total** |
| | | | *(In Thousands)* | | |
| Bank loans | **₱–** | **₱9,923,215** | **₱–** | **₱–** | **₱9,923,215** |
| Accounts payable and other current liabilities* | **–** | **69,578,752** | **–** | **–** | **69,578,752** |
| Long-term debt (including current portion)** | **–** | **33,073,695** | **205,142,322** | **88,156,618** | **326,372,635** |
| Dividends payable | **–** | **346,281** | **–** | **–** | **346,281** |
| Tenants' deposits ** | **–** | **49,722** | **13,710,751** | **268,170** | **14,028,643** |
| Other noncurrent liabilities *** | **–** | **–** | **3,420,984** | **–** | **3,420,984** |
| | **₱–** | **₱112,971,665** | **₱222,274,057** | **₱88,424,788** | **₱423,670,510** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 1 Year | 2 to 5 Years | More than 5 Years | Total |
| | | | *(In Thousands)* | | |
| Bank loans | ₱– | ₱13,892,641 | ₱– | ₱– | ₱13,892,641 |
| Accounts payable and other current liabilities* | – | 65,184,525 | – | – | 65,184,525 |
| Long-term debt (including current portion)** | – | 15,266,474 | 168,584,633 | 120,127,455 | 303,978,562 |
| Derivative liabilities:** | | | | | |
| Interest rate swaps | – | – | 58,705 | – | 58,705 |
| Multiple derivatives on convertible bonds | – | 1,092,382 | – | – | 1,092,382 |
| Dividends payable | – | 264,882 | – | – | 264,882 |
| Tenants' deposits ** | – | – | 13,815,542 | 247,840 | 14,063,382 |
| Other noncurrent liabilities *** | – | – | 3,208,432 | – | 3,208,432 |
| | ₱– | ₱95,700,904 | ₱185,667,312 | ₱120,375,295 | ₱401,743,511 |

* *Excluding payable to government agencies of P3,544.7 million and P3,584.2 million at December 31, 2015 and 2014, respectively, which are not considered as financial liabilities.*
** *Based on estimated future cash flows.*
*** *Excluding nonfinancial liabilities amounting to P1,412.0 million and P573.0 million at December 31, 2015 and 2014, respectively.*

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

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral. Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

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

As at December 31, 2015 and 2014, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets

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

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

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

The credit analysis of the Group's financial assets follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **High Quality** | **Standard Quality** | **Total** | High Quality | Standard Quality | Total |
| | | | *(In Thousands)* | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱52,769,650** | **₱–** | **₱52,769,650** | ₱67,964,569 | ₱– | ₱67,964,569 |
| Time deposits including noncurrent portion | **62,739,174** | **–** | **62,739,174** | 56,579,714 | – | 56,579,714 |
| Investments held for trading - | | | | | | |
| Bonds | **279,359** | **–** | **279,359** | 307,835 | – | 307,835 |
| AFS investments | **21,993,333** | **3,918** | **21,997,251** | 23,083,740 | 3,918 | 23,087,658 |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | **29,341,750** | **7,041,939** | **36,383,689** | 29,227,148 | 6,323,604 | 35,550,752 |
| Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, notes receivable, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet) | **11,523,861** | **–** | **11,523,861** | 17,531,340 | – | 17,531,340 |
| Escrow fund (including noncurrent portion) | **570,099** | **–** | **570,099** | 800,238 | – | 800,238 |
| Long-term note (included under "Other noncurrent assets" account in the consolidated balance sheet) | **927,000** | **–** | **927,000** | – | – | – |
| Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet) | **3,964,807** | **–** | **3,964,807** | 2,555,708 | – | 2,555,708 |
| | **₱184,109,033** | **₱7,045,857** | **₱191,154,890** | ₱198,050,292 | ₱6,327,522 | ₱204,377,814 |

Equity Price Risk

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

The effect on equity after income tax of a possible change in equity indices with all other variables held constant is as follows:

| | Change in Equity Price | Effect on Equity After Income Tax |
|---|---|---|
| | | *(In Millions)* |
| **2015** | **+9.0%** | **₱2,268.7** |
| | **-9.0%** | **(2,268.7)** |
| 2014 | +9.0% | 3,055.5 |
| | -9.0% | (3,055.5) |

Capital Management

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

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

The Group monitors its capital gearing by measuring the following ratios and maintaining them at not lower than 50:50.

- Net interest-bearing debt divided by total capital plus net interest-bearing debt
- Interest-bearing debt divided by total capital plus interest-bearing debt.

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

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱9,923,215** | ₱13,892,641 |
| Long-term debt (current and noncurrent) | **271,162,069** | 247,782,663 |
| Less: | | |
| Cash and cash equivalents (excluding cash on hand) | **(52,769,650)** | (67,964,569) |
| Time deposits (current and noncurrent) | **(62,739,174)** | (56,579,714) |
| AFS investments (bonds and corporate notes) | **(4,866,562)** | (5,626,784) |
| Investments held for trading - bonds | **(279,359)** | (307,835) |
| Long-term notes (current and noncurrent) | **(1,908,435)** | – |
| Total net interest-bearing debt (a) | **158,522,104** | 131,196,402 |
| Total equity attributable to owners of the Parent | **284,493,505** | 257,004,114 |
| Total net interest-bearing debt and equity attributable to owners of the Parent (b) | **₱443,015,609** | ₱388,200,516 |
| Gearing ratio - net (a/b) | **36%** | 34% |

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

| | 2015 | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱9,923,215** | ₱13,892,641 |
| Long-term debt | **271,162,069** | 247,782,663 |
| Total interest-bearing debt (a) | **281,085,284** | 261,675,304 |
| Total equity attributable to owners of the Parent | **284,493,505** | 257,004,114 |
| Total interest-bearing debt and equity attributable to owners of the Parent (b) | **₱565,578,789** | ₱518,679,418 |
| Gearing ratio - gross (a/b) | **50%** | 50% |

## 30. FINANCIAL INSTRUMENTS

Fair Values

The carrying values and estimated fair values of the Group's financial assets and liabilities, by category and by class, except for those with carrying amounts that are reasonable approximations of fair values follow:

| | | | 2015 | | |
|---|---|---|---|---|---|
| | Carrying Value | Fair value | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | *(In Thousands)* | | |
| **Assets Measured at Fair Value** | | | | | |
| Financial assets at FVPL - | | | | | |
| Derivative assets | **₱3,964,807** | **₱3,964,807** | **₱–** | **₱3,964,807** | **₱–** |
| **Assets for which Fair Values are Disclosed** | | | | | |
| Loans and receivables: | | | | | |
| Time deposits - noncurrent portion | **53,127,769** | **57,332,807** | **–** | **–** | **57,332,807** |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | **40,096,123** | **39,967,000** | **–** | **–** | **39,967,000** |
| Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet) | **927,000** | **940,801** | **–** | **–** | **940,801** |
| | **94,150,892** | **98,240,608** | **–** | **–** | **98,240,608** |
| | **₱98,115,699** | **₱102,205,415** | **₱–** | **₱3,964,807** | **₱98,240,608** |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost) | **₱245,167,269** | **₱265,886,763** | **₱–** | **₱–** | **₱265,886,763** |
| Tenants' deposits and others* | **25,238,728** | **23,649,743** | **–** | **–** | **23,649,743** |
| | **270,405,997** | **289,536,506** | **–** | **–** | **289,536,506** |
| | **₱270,405,997** | **₱289,536,506** | **₱–** | **₱–** | **₱289,536,506** |

**Excluding nonfinancial liabilities amounting to ₱1,412.0 million as at December 31, 2015*

| | Carrying Value | Fair value | 2014 Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **Assets Measured at Fair Value** | | | | | |
| Financial assets at FVPL - | | | | | |
| Derivative assets | ₱2,555,708 | ₱2,555,708 | ₱– | ₱2,555,708 | ₱– |
| **Assets for which Fair Values are Disclosed** | | | | | |
| Loans and receivables: | | | | | |
| Time deposits - noncurrent portion | 47,579,390 | 51,735,721 | – | – | 51,735,721 |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | 39,351,403 | 39,264,893 | – | – | 39,264,893 |
| | 86,930,793 | 91,000,614 | – | – | 91,000,614 |
| | ₱89,486,501 | ₱93,556,322 | ₱– | ₱2,555,708 | ₱91,000,614 |
| **Liabilities Measured at Fair Value** | | | | | |
| Financial Liabilities at FVPL - | | | | | |
| Derivative liabilities (current and noncurrent) | ₱1,151,087 | ₱1,151,087 | ₱– | ₱58,705 | ₱1,092,382 |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost) | 237,113,555 | 258,583,840 | – | – | 258,583,840 |
| Tenants' deposits and others* | 21,406,013 | 20,646,657 | – | – | 20,646,657 |
| | 258,519,568 | 279,230,497 | – | – | 279,230,497 |
| | ₱259,670,655 | ₱280,381,584 | ₱– | ₱58,705 | ₱280,322,879 |

**Excluding nonfinancial liabilities amounting to ₱573.0 million as at December 31, 2014*

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements as at December 31, 2015 and 2014.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

| | **2015** | 2014 |
|---|---|---|
| Noncurrent portion of time deposits | **0.91%–2.07%** | 0.28%–2.25% |
| Noncurrent portion of receivables from real estate buyers | **4.50%** | 5.20% |
| Long-term notes included under "Other noncurrent assets" account | **2.01%–3.51%** | – |
| Tenants' deposits | **2.12%–4.54%** | 2.44%–5.22% |

*Long-term Debt.* Fair value is based on the following:

| Debt Type | Fair Value Assumptions |
|---|---|
| Fixed Rate Loans | Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.37% to 5.59% and 0.26% to 5.32% as at December 31, 2015 and 2014, respectively. |
| Variable Rate Loans | For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 1.95% to 4.00% and 1.70% to 4.00% as at December 31, 2015 and 2014, respectively. |

*Derivative Assets and Liabilities.* The fair values of the interest rate swaps, cross-currency swaps, and non-deliverable forwards are based on quotes obtained from counterparties classified under Level 2 of the fair value hierarchy. The fair values of the embedded options relating to the Parent Company's convertible bonds were classified under Level 3 because the credit spread used as input to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values. The fair values of the embedded options were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

| Significant Unobservable Inputs to Valuation | Range |
|---|---|
| USD risk-free rate | 0.057–0.796% |
| Credit spread | 4.3540% |

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

| | Increase (Decrease) in Credit Spread | Net Effect on Fair Values of Option |
|---|---|---|
| | | *(In Thousands)* |
| 2014 | 100 bps | (₱88,977) |
| | (100) bps | 91,303 |

The rollforward analysis of the fair value changes of this financial instrument follows:

| | **2015** | 2014 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **(₱1,092,382)** | (₱845,429) |
| Fair value changes | **(151,020)** | (257,680) |
| Conversions | **1,243,402** | 10,727 |
| Balance at end of year | **₱–** | (₱1,092,382) |

Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The Company also has embedded derivatives from the Parent Company's long-term note (recorded under "Noncurrent Assets" account) and convertible bonds.

| | **Parent** | | | | **SM Prime** | | | **Total** |
|---|---|---|---|---|---|---|---|---|
| | Cross-currency Swaps | Options arising from Convertible Bonds | Foreign Currency Swap | Non-deliverable Forwards | Cross-currency Swaps | Interest Rate Swaps | Non-deliverable Forwards | |
| | | | | *(In Thousands)* | | | | |
| Balance as at December 31, 2013 | ₱864,677 | (₱845,429) | ₱– | ₱– | ₱1,668,399 | (₱49,562) | ₱– | ₱1,638,085 |
| Fair value changes: | | | | | | | | |
| Interest expense | – | – | – | – | (225,249) | (37,423) | – | (262,672) |
| Foreign currency exchange loss | – | (12,597) | – | – | – | – | – | (12,597) |
| Cumulative translation adjustments | 58,217 | – | – | – | (66,067) | – | – | (7,850) |
| Gain (loss) on fair value changes of derivatives | – | (245,083) | 32,190 | 2,000 | – | 21,340 | 13,612 | (175,941) |
| Transferred to additional paid-in capital | – | 10,727 | – | – | – | – | – | 10,727 |
| Fair value of settled derivatives | – | – | (32,190) | (2,000) | 225,249 | 37,422 | (13,612) | 214,869 |
| Balance as at December 31, 2014 | 922,894 | (1,092,382) | – | – | 1,602,332 | (28,223) | – | 1,404,621 |
| Fair value changes: | | | | | | | | |
| Interest expense | – | – | – | – | (187,210) | (59,189) | – | (246,399) |
| Foreign currency exchange gain | – | 153 | – | – | – | – | – | 153 |
| Cumulative translation adjustments | 441,114 | – | – | – | 998,467 | – | – | 1,439,581 |
| Gain (loss) on fair value changes of derivatives | – | (151,173) | | 6,491 | – | 28,223 | 13,694 | (102,765) |
| Transferred to additional paid-in capital | – | 1,243,402 | – | – | – | – | – | 1,243,402 |
| Fair value of settled derivatives | – | – | – | (6,491) | 187,210 | 59,189 | (13,694) | 226,214 |
| **Balance as at December 31, 2015** | **₱1,364,008** | **₱–** | **₱–** | **₱–** | **₱2,600,799** | **₱–** | **₱–** | **₱3,964,807** |
| Derivative assets | ₱1,364,008 | ₱– | ₱– | ₱– | ₱2,600,799 | ₱– | ₱– | ₱3,964,807 |
| Derivative liabilities | – | – | – | – | – | – | – | – |
| **Balance as at December 31, 2015** | **₱1,364,008** | **₱–** | **₱–** | **₱–** | **₱2,600,799** | **₱–** | **₱–** | **₱3,964,807** |

Derivative Instruments Accounted for as Cash Flow Hedges

*Cross-currency Swaps.* In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) (see Note 20).

Under the floating-to-fixed cross-currency swaps, the hedged U.S. dollar-denominated loans have been converted into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receive floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with interest payments on the hedged loans.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statements of income for the years ended December 31, 2015 and 2014.

Details of the hedged loans follow:

| | Outstanding Principal Balance *(In Thousands)* | | Interest Rate | Maturity |
|---|---|---|---|---|
| | (In US$) | (In Ph₱) | | |
| Parent - | | | | |
| Unsecured loans | US$180,000 | ₱8,470,800 | 6-month US LIBOR + 1.70% | May 15, 2018 |
| SM Prime: | | | | |
| Unsecured loan | 200,000 | 9,412,000 | 6-month US LIBOR + 1.70% | January 29, 2018 |
| Unsecured loan | 150,000 | 7,059,000 | 6-month US LIBOR + 1.70% | March 25, 2018 |

The Group's outstanding cross-currency swaps as at December 31, 2015 follow:

| | Notional Amount *(In Thousands)* | | Receive | Pay | US$:₱ Rate | Maturity | Fair Value *(In Thousands)* |
|---|---|---|---|---|---|---|---|
| | *(In US$)* | *(In Ph₱)* | | | | | |
| Parent: | | | | | | | |
| Floating-to-Fixed | US$50,000 | ₱2,059,250 | 6M US LIBOR + 170 bps | 4.05% | ₱41.19 | May 15, 2018 | ₱380,667 |
| Floating-to-Fixed | 60,000 | 2,478,000 | 6M US LIBOR + 170 bps | 4.03% | 41.30 | May 15, 2018 | 451,005 |
| Floating-to-Fixed | 70,000 | 2,888,200 | 6M US LIBOR + 170 bps | 3.98% | 41.26 | May 15, 2018 | 532,336 |
| SM Prime: | | | | | | | |
| Floating-to-Fixed | 150,000 | 6,100,500 | 6M US LIBOR + 170 bps | 3.70% | 40.67 | January 29, 2018 | 1,162,002 |
| Floating-to-Fixed | 50,000 | 2,033,500 | 6M US LIBOR + 170 bps | 3.70% | 40.67 | January 29, 2018 | 372,570 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 370,959 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 343,859 |
| Floating-to-Fixed | 50,000 | 2,055,000 | 6M US LIBOR + 170 bps | 3.90% | 41.10 | March 23, 2018 | 351,409 |

Other Derivative Instruments Not Designated as Accounting Hedges

- *Options Arising from Long-term Note.* The Parent Company entered into a loan agreement with Atlas. The loan contains multiple embedded derivatives such as conversion, call and put options. The conversion option pertains to the right of the Parent Company to convert the loan into common shares of Atlas at the conversion price of ₱8.29 per share at any time beginning July 21, 2015 until June 2, 2018. The call option pertains to the right of Atlas to early redeem the loan, in whole but not in part, on or after December 9, 2016 subject to the conditions stated in the loan agreement. On the other hand, the put option pertains to the right of the Parent Company to require Atlas to redeem all or some of the loan at their prepayment amount on the date fixed for prepayment beginning June 9, 2016. As at December 31, 2015, all outstanding embedded derivatives have nil values.

The Group's interest rate swaps presented by maturity profile follow:

| Year Obtained | Maturity | Interest Payment | Outstanding Notional Amount <1 year | Receive | Pay | Aggregate Fair Value 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | *(In Thousands)* | |
| Floating-to-Fixed | | | | | | | |
| 2013 | June 2015 | Quarterly | ₱349,440 | 3MPDST-R2 | 3.65%–4.95% | **₱–** | (₱1,882) |
| 2011 | March 2015 | Semi-annual | $145,000 | 6 months LIBOR + margin | 2.91%–3.28% | **–** | (37,535) |
| 2010 | November 2015 | Semi-annual | $30,000 | 6 months LIBOR + margin | 3.18% | **–** | (19,288) |
| Fixed-to-Floating | | | | | | | |
| 2010 | June 2015 | Quarterly | ₱1,570,560 | 5.44%–7.36% | 3MPDST-R2 | **₱–** | ₱30,482 |

*Interest Rate Swaps.* In 2013, SM Prime entered into two floating-to-fixed Philippine peso interest rate swap agreements with a notional amount of ₱175.0 million each to offset the cash flows of the two fixed-to-floating Philippine peso interest rate swaps entered into in 2010. The loans bear interest based on LIBOR plus spread, with bullet maturity on March 25, 2018 and January 24, 2018, respectively (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱2.0 million gain in 2015.

In 2011, SMPH entered into floating-to-fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱38 million gain in 2015.

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

- A US$ interest rate swap agreement with a nominal amount of US$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment terms up to November 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱19 million gain in 2015.

- Two Philippine peso interest rate swap agreements with a notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The consolidated net cash flow of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment terms up to June 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱31 million loss in 2015.

*US$250.0 million Convertible Bonds.* The Parent Company's convertible bonds contain multiple embedded derivatives which were bifurcated and accounted for as a single compound derivative (see Note 20).

*Non-deliverable Forwards.* In 2015 and 2014, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ with the same aggregate notional amount.

## 31. EPS COMPUTATION

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| | *(In Thousands Except Per Share Data)* | | |
| Net income attributable to owners of the Parent for basic earnings (a) | **₱28,455,260** | ₱28,398,584 | ₱27,445,682 |
| Effect on net income of convertible bonds, net of tax | **–** | – | – |
| Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b) | **₱28,455,260** | ₱28,398,584 | ₱27,445,682 |
| **Weighted Average Number of Common Shares Outstanding** | | | |
| Weighted average number of common shares outstanding for the year, after retroactive effect of stock dividends declared in 2013 (c) | **797,477** | 796,317 | 787,457 |
| Dilutive effect of convertible bonds | **–** | – | – |
| Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d) | **797,477** | 796,317 | 787,457 |
| **Basic EPS (a/c)** | **₱35.68** | ₱35.66 | ₱34.85 |
| **Diluted EPS (b/d)** | **₱35.68** | ₱35.66 | ₱34.85 |

The effect of the convertible bonds on net income and on the number of shares in 2014 and 2013 were not considered due to its antidilutive effect, which if included, will result to an EPS of ₱35.77 and ₱36.34 in 2014 and 2013, respectively. As at April 9, 2015, the remaining 6.7 million convertible shares was fully converted to SMIC shares, hence, basic and diluted EPS as at December 31, 2015 is the same.

## 32. NON-CASH TRANSACTIONS

The Group's principal non-cash transaction under financing activities pertains to the conversion of the Parent Company's convertible bonds into common shares. Details of the conversion option of the convertible bonds and the conversions are in Note 20.

## 33. RECLASSIFICATIONS OF ACCOUNTS

The Group made reclassification of certain consolidated balance sheet accounts as at December 31, 2014 and consolidated statement of income accounts in 2014 and 2013 to conform to the 2015 consolidated financial statements presentation and classification. The reclassifications were made to properly present advances and deposits from other current assets to other noncurrent assets, and land use rights from investment properties to other noncurrent assets. The reclassifications have no impact on the 2014 and 2013 profit or loss as well as the December 31, 2014 equity of the Group. A third balance sheet as at the beginning of the preceding period is not presented because the reclassifications do not have material impact on the consolidated balance sheets as at December 31, 2014 and January 1, 2014.

## 34. EVENTS AFTER THE REPORTING PERIOD

On January 8 and February 9, 2016, the Parent Company extended two five-year term loans to Atlas amounting to ₱705.4 million and ₱1,346.3 million, respectively. These unsecured loans bear interest at 5.0% and are payable quarterly.

On February 29, 2016, the BOD of the Parent Company approved the merger of SM Retail with certain related entities namely, Forsyth Equity Holdings, Inc., HFS Corporation, Morrison Corporation, San Mateo Bros., Inc. and Tangiers Resources Corporation, with SM Retail as the surviving entity. These related companies own various retail businesses.

# CORPORATE INFORMATION

### Company Headquarters
10th Floor, OneE-com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines

### External Auditor
SyCip Gorres Velayo & Co.

### Stockholder Inquiries
SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

For Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

### BDO Unibank, Inc. - Trust and Investments Group
15th Floor, South Tower
BDO Corporate Center
7899 Makati Avenue
Makati City 0726, Philippines
Tel.: (632) 840-7000 loc. 6975 to 6978;
878-4052 to 54; 878-4963; 878-4740

### Investor Relations
Tel.: (632) 857-0100
Email: ir@sminvestments.com
www.sminvestments.com

**SM Investments Corporation's reports, presentations and publications can be viewed or downloaded at www.sminvestments.com.**

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INVESTMENTS
CORPORATION

10th Floor, OneE-com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines

Email: ir@sminvestments.com
www.sminvestments.com